

Form ADV Program Brochure Morgan Stanley Smith Barney LLC

Graystone Consulting

March 30, 2012

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

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

Item 2: Material Changes

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

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

For Participant-Directed Retirement Plans. We now offer administrative services such as assistance with searches to retain third party providers and analyzing third party fees. These are in addition to existing services such as identifying suitable managers and providing initial and ongoing consulting services such as investment policy statement review, asset style analysis and mutual fund search. (Item 4.A).

We now offer participant-directed retirement plan clients the DC Investment Consulting Fund Screening service, in which Graystone screens funds in the Morningstar database to give plan clients a greater choice of funds in which to invest. (Item 6.A)

Graystone Mutual Fund Due Diligence. Select Graystone teams perform due diligence on mutual funds so that you have access to more mutual funds. The teams perform both qualitative and quantitative assessments of all funds. The Graystone Director of Research approves all reports before we provide them to you. (Item 6.A)

Cash Sweeps. Any uninvested cash, and allocations to cash, in your account are invested in either interest bearing bank deposit accounts (“Deposit Accounts”) or money market funds. If you have a Deposit Account, this may now be held at one or more of the following banks affiliated with us: (i) Morgan Stanley Bank, N.A., (ii) Morgan Stanley Private Bank, National Association or (iii) Citibank, N.A. Each bank pays us a fee based on your Deposit Account balances (except

on retirement plans or Coverdell Education Savings accounts). Your Financial Advisor does not receive a portion of these fees.

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

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

Fees. We list fees for different services and payment methods such as for participant-directed retirement plan services, for hard dollar billing and for Graystone Discretionary Services as well as detailing payments that we may receive from investment managers. (Item 4.A)

Risks. We have expanded the investing risks discussion to include the risks relating specifically to alternative investments. (Item 4.A)

Evaluating Managers and Funds. We describe how we select investment products for, and terminate them from, our programs. Our Consulting Group Investment Advisor Research department (“CG IAR”) has two evaluation processes. CG IAR places managers and funds passing its most rigorous process on the Focus List. Alternatively, managers and funds on CG IAR’s Approved List are subject to a less comprehensive evaluation process. (Items 4.A and 6.A)

Conflicts of Interest. We disclose conflicts of interest arising when we act as placement agent, an affiliate acts as portfolio manager or we receive payment from alternative investment managers. (Item 6.B)

Proxy Voting. We have changed our proxy voting options in Graystone Discretionary Services accounts. You may either retain authority to vote proxies or delegate discretion to a third party. (Item 6.C)

Reviewing Accounts. If you have a Graystone Discretionary Services account, your Graystone Consultant will review your account and may adjust your portfolio and make recommendations. (Item 9)

Fiduciary Asset Management Program. More information on Graystone Discretionary Services we provide through our Fiduciary Asset Management program is in a separate ADV brochure.

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Item 4: Services, Fees and Compensation

Graystone Consulting

Graystone Consulting (“Graystone”) is a separate business unit of Morgan Stanley Smith Barney LLC (“MSSB”, “we” or “us”), that focuses on providing a wide range of investment consulting services to institutional and high net worth individual clients, including assistance in developing investment policy statements, asset allocation, investment manager, mutual fund (“Fund”), exchange traded fund (“ETF”) and alternative investment research, performance reporting and custody services. These services are delivered through a select group of institutional consulting teams located across the country that have significant experience serving the investment advisory needs of institutions, as well as high net worth individual clients, and are supported by a management team dedicated to institutional consulting. Graystone clients include corporations, Taft-Hartley plans, foundations and endowments, public and private defined benefit plans, 401(k) plan sponsors, family offices and high net worth individuals.

MSSB Financial Advisors must meet specific eligibility criteria to become “Graystone Consultants” and be part of a Graystone team which typically adheres to the following team structure:

- **Institutional Consulting Director.** Directors oversee an integrated local consulting team, generally average over 20 years of industry experience, and are responsible for the team’s investment consulting process throughout the life of the client relationship.
- **Consulting Analysts.** A key focus of Graystone Consulting analysts is the evaluation of investment management firms and Funds. In addition, analysts support asset allocation and performance monitoring processes. Analysts are trained in the use of investment analytics tools and are involved in the preparation of client presentations and performance reviews.
- **Operational Support.** Team members focus on processing client agreements and provide general operational and administrative support on behalf of Graystone clients.

MSSB

Graystone is backed by the resources of MSSB. 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 financial services firms in the country with branch offices in all 50 states and the District of Columbia.

MSSB was established in June 2009, when Morgan Stanley (“Morgan Stanley Parent”) and Citigroup Inc. (“Citi”) combined the Global Wealth Management Group of Morgan Stanley & Co. Morgan Stanley & Co. LLC (“MS&Co.”) (formerly Morgan

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

MSSB offers clients (“you”, “your” and the “Client”) many different advisory programs. One channel generally provides the investment advisory programs previously provided by Smith Barney and/or Citigroup Global Markets Inc. (“CGM”) (“SB Channel”) and generally provides these programs through the same businesses and retail locations as did Smith Barney and/or CGM. The other channel generally provides the investment advisory programs previously provided by MS&Co. and generally provides these programs through the same businesses and retail locations as did MS&Co. (“MS Channel”).

Merger of Investment Advisory Programs. While some programs are available only in one channel, MSSB is in the process of merging the two channels and their advisory programs and we anticipate that in 2012, MSSB will begin operating as a single channel on one platform which will at least initially be substantially similar to the current MS Channel and platform. This conversion of the SB Channel and the MS Channel is referred to as the “Conversion” and accounts opened or operating on this one platform are referred to as “Converted Accounts”.

We do not anticipate that the Conversion will have any material impact on Graystone or MSSB accounts. We anticipate that the Conversion will occur in three “Cuts” during 2012, each of which will involve the conversion of distinct groups of SB Channel client accounts, and after the third Cut, no accounts will remain on the SB Channel platform. MSSB will notify you if and when your account will be converted, and of any changes that the conversion will have on your account, prior to any Conversion Cut that impacts you. To determine whether your account is a SB Channel account, a MS Channel account or a Converted Account, please contact your Graystone Consultant.

For clients who maintain custody with us, until the Conversion is complete, unless clients elect otherwise, their assets will be custodied at either CGM (for SB Channel accounts) or MSSB (for MS Channel accounts and Converted Accounts).

A. General Description of Programs

Traditional Institutional Consulting Services

Graystone offers the following traditional Institutional Consulting Services to its clients.

Assistance in Preparation of Investment Objectives and Policies. Graystone assists in the review, evaluation and preparation of the client’s investment policies and objectives and

if requested will assist in preparing investment guidelines for each of the client's investment managers.

Asset Allocation. Graystone reviews the client's asset allocation and will make asset allocation recommendations in accordance with the goals of the client.

Investment Searches. Graystone assists the client in identifying and recommending investment managers, Funds and ETFs ("Investment Products"). These recommendations are based either on MSSB Investment Advisor Research (using different methods to evaluate investment managers, Funds and ETFs -- research on investment managers is provided through MSSB's Fiduciary Services ("FS") and Consulting and Evaluation Services ("CES") programs) or Graystone due diligence. Graystone due diligence on managers is conducted through its Manager Assessment Program, a proprietary investment management scoring system that assesses investment manager products in that database. Graystone teams conduct further analysis in an effort to identify managers for clients. See Item 6 below for more details.

Depending on applicable legal and regulatory requirements, clients may invest in certain affiliated and/or unaffiliated alternative investment vehicles that are followed by MSSB alternatives research as described in Item 6 (such investments, together with Investment Products, "Investment Options").

Non-Researched Managers. Clients also may select investment managers outside of those covered by Investment Advisor Research or Graystone due diligence. Such outside managers, if qualified, will be offered through MSSB's Investment Management Services Program ("IMS"). MSSB does not evaluate or make any representations concerning such investment managers and shall not assume any liability for any loss, claim, damage or expense attributable to the client's selection of managers not covered by Investment Advisor Research or Graystone due diligence.

For more information about FS and CES or other investment advisory services offered by MSSB, as well as assistance in determining which service may be best suited to your needs and objectives, please contact your Graystone Consultant or refer to www.smithbarney.com/ADV.

Performance Measurement. Graystone Consulting provides clients with customized performance reports that assess investment risk and return relative to benchmarks. The reports may include comparisons to recognized benchmarks and market segments.

Custody and Statements. CGM (for SB Channel accounts) or MSSB (for MS Channel accounts and Converted Accounts) may serve as the custodian of all cash, securities and other assets held in the portfolio and credit the portfolio with dividends and interest paid on securities held and with the principal paid on called or matured securities in the portfolio. You will be provided with written confirmation of securities transactions, and account statements at least quarterly.

Graystone Discretionary Services

Graystone also offers through qualified Graystone Consulting teams and for eligible clients, discretionary institutional consulting services whereby Graystone is responsible for the discretionary selection and rebalancing of Investment Options in accordance with the client's investment policy statement. Such discretion is exercised utilizing the resources of MSSB's Fiduciary Asset Management program ("FAM"). FAM is designed to manage the overall investment process, including investment policy decisions, asset and investment style allocation decisions, manager selection, review and termination, and comprehensive monitoring of the client's portfolio. In addition to discretionary investment management, clients receive custodial services (unless the client elects to use an outside custodian), trade execution and related services for a single asset based fee. For more details on FAM, please refer to the FAM ADV available at www.smithbarney.com/ADV.

Graystone Discretionary Services is designed for clients who wish to have Graystone assume full discretion over asset allocation rebalancing decisions as well as decisions to terminate any Investment Option. Graystone also provides the client with on-going financial management services such as investment performance reporting, administration, trade execution and custody. Based on a client's long-term strategic policy allocation parameters and other investment constraints, Graystone will look for opportunities in asset classes or investment styles with above average expected rates of return while managing overall portfolio risk in accordance with the client's investment policies. As a "manager of managers" Graystone will assume full responsibility for the operations of the client's investment program.

For Participant-Directed Retirement Plans

Graystone also offers a non-discretionary investment-consulting platform for participant directed retirement plans. Through this program, Graystone Consulting offers initial and ongoing investment consulting services to Plan Sponsors, including investment policy statement review, asset style analysis and mutual fund search and selection. For participant-directed retirement plan sponsor clients, Graystone offers the DC Investment Consulting Fund Screening Program which is explained further in Item 6A below. Also, Graystone may assist the retirement plan and other institutional clients with certain administrative functions as described below. These are not investment advisory services and MSSB does not assume status as a fiduciary under ERISA, the Investment Advisers Act of 1940 or any other applicable law or regulation in performing these services. Graystone Consulting provides the following administrative services:

- **Board Education/Asset Classification** – Graystone shall provide the Client with general financial and investment information relating to such concepts as diversification and asset classification with respect to various asset classes and historic rates of return.
- **Participant Education** – Graystone shall provide the Client and/or its employees eligible to participate in Client's Plan with general financial and investment

information relating to such concepts as diversification, asset allocation and historic rates of return.

- **Provider Search Assistance** – Graystone may assist plan sponsors in searches to retain third party service providers such as record keepers. This service may be provided to existing clients or on a one-time basis to plans that are not existing Graystone clients. In doing so, Graystone will:

- 1) evaluate the plan sponsor's needs
- 2) assist the plan sponsor in preparing a Request for Proposal ("RFP")
- 3) Assist the plan sponsor in soliciting and reviewing responses from potential providers
- 4) Assist the plan sponsor in selecting finalists and
- 5) Provide the plan sponsor with an executive summary report to assist the plan sponsor in making its final decision.

- **Fee Benchmarking** – Graystone may perform a comparative analysis of fees charged by third party service providers and the expenses of funds that are available to the plan sponsor in order to allow them to evaluate the level of such fees that they pay relative to similarly structured and sized retirement plans. This service may be provided to existing clients or on a one-time basis to plans that are not clients and Graystone may retain third-party firms to assist it in providing this service. The service shall include the following:

- 1) obtaining information from the plan sponsor for preparation of a Fee Benchmarking report and
- 2) preparation of and assistance in the review and evaluation of the Fee Benchmarking report with the plan sponsor.

Other Services

Alternative Investments Performance Reporting Service.

Graystone offers alternative investments performance reporting capabilities. This is a non-discretionary service, and clients are responsible for executing participation agreements directly with each alternative investment. Graystone offers clients the ability to receive periodic reports that provide historical performance reporting of their alternative investments that were not purchased through Graystone and are not researched by Graystone or MSSB. The alternative investments historical performance information provided by this service is based upon information provided, directly or indirectly, to Graystone by the issuer of the alternative investment, or by its sponsor, investment manager or administrator ("Performance Reporting AI"). MSSB's ability to provide historical or other performance reporting on alternative investments is dependant upon its ability to obtain such information from each Performance Reporting AI. The performance reporting enables the client to receive from

Graystone periodic reports containing the client's historical performance information as reported by the applicable performance reporting AI. Client may also receive composite reports that show historical performance of alternative investments as reported by the Performance Reporting AI, along with historical or other performance information or other investments that were/are acquired by Graystone, are held in custody by CGM or MSSB or are followed by MSSB research. The performance information provided in a periodic performance report is based on information provided to Graystone by the Performance Reporting AI and is not independently verified by Graystone. Graystone and MSSB shall not be liable for any misstatement or omission made by a Performance Reporting AI nor for any loss, liability, claim, damage or expense arising out of such misstatement or omission. The reporting service is not intended to constitute investment advice or a recommendation by Graystone of any alternative investment and Graystone is not evaluating the appropriateness of the initial investment or the continued investment in the alternative investments reported on as a part of this service. In addition, the service does not constitute, create or impose a fee-based brokerage relationship, a fiduciary relationship or an investment advisory relationship under the Investment Advisers Act of 1940, as amended, with regard to the provision of the investments covered under this service. If the Client is an employee benefit plan or is otherwise subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), Graystone and MSSB are NOT acting as a fiduciary (as defined in ERISA) with the respect to the provision of these reporting services as described herein). Graystone is not responsible for and will not provide tax reporting with respect to any alternative investment reported on under this service.

Graystone, MSSB and CGM do not normally maintain custody of alternative investments reported on under this service and therefore such investments are not included under MSSB's SIPC coverage. The fee charged to the client in this service does not include any fee or charge for other services in connection with the client's participation in any alternative investment or as may be charged by a Performance Reporting AI. The client is solely responsible for such arrangements.

Asset/Liability Analysis Services Graystone works with third party vendors, whose proprietary asset/liability modeling software is used to generate customized asset liability studies for defined benefit plan clients. The asset/liability analysis service provides certain cash flow modeling, liability funding analysis and funding strategies including custom contribution policies.

General Description of All Programs

Unless specified otherwise, this section discusses various general matters applying to all the programs described in this brochure.

Account Opening

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

Restrictions

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

Trade Confirmations, Account Statements and Performance Reviews

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

We provide performance monitoring to clients with a frequency as requested by the client.

Risks

All trading in an account is at your risk. The value of the assets held in an account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. Investment performance of any kind is not guaranteed, and Graystone's, MSSB's, or its employees' past performance with respect to other accounts does not predict future performance with respect to any particular account. In addition, certain investment strategies that Graystone Consulting 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 Graystone Consultant regarding the specific risks associated with the investments in your account.

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

Risks Relating to Money Market Funds. An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, there is

no assurance that will occur, and it is possible to lose money if the fund value per share falls. Moreover, in some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings are liquidated and distributed to the fund's shareholders. This liquidation process could take up to one month or more. 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 Alternative Investments. Alternative investments have different features and risks from other types of investment products. As further described in the offering documents of any particular alternative investment, an investment in alternative investments can be highly illiquid, is speculative and not suitable for all investors. For example, alternative investment products may place substantial limits on liquidity and the redemption rights of investors, including only permitting withdrawals on a limited periodic basis and with a significant period of notice and may impose early withdrawal fees. Investing in alternative investments is intended for experienced and sophisticated investors only who are willing to bear the high economic risks of the investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include: loss of all or a substantial portion of the investment due to leveraging, shortselling, or other speculative practices; lack of liquidity, in that there may be no secondary market for the fund and none expected to develop; volatility of returns; restrictions on transferring interests in the fund; potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; absence of information regarding valuations and pricing; complex tax structures and delays in tax reporting; less regulation and higher fees than mutual funds; and advisor risk. Alternative investment products may also have higher fees (including multiple layers of fees) compared to other types of investments.

Individual funds will have specific risks related to their investment programs that will vary from fund to fund. For more details on these and other features and risks, please carefully read the documentation (including risk disclosures) relating to any selected Investment Option, as well as your client agreement.

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.

Tax Considerations

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

Fees

Traditional Institutional Consulting Services

Asset Based Fee. The fees for traditional Institutional Consulting Services are negotiable and subject to a \$35,000 minimum fee per relationship. Fees are generally charged quarterly in advance and are based on a number of factors including the specific services to be provided, which may result in a particular client paying a fee greater than the standard fees. The standard asset based fee schedule is as follows:

Account Asset Value	Annual Fee
On the first \$5,000,000	1.35%
On the next \$5,000,000	0.80%
On the next \$15,000,000	0.40%
On the next \$25,000,000	0.30%
On the next \$50,000,000	0.20%
On the next \$100,000,000	0.10%
Over \$200,000,000	Negotiable

Hard Dollar Fee. In addition, clients may select any of the services listed below subject to the following minimum fees for each and an overall minimum engagement fee of \$15,000. For historical analysis the fee is \$2,500 per portfolio per year. For investment policy statements, the initial fee is \$5,000 and updates are \$2,500. For strategic asset allocation studies, the initial fee is \$7,500 and updates are \$2,500. Active asset allocation only is provided for an ongoing retainer of \$10,000 per year. The fee for an asset liability analyses is \$15,000 per year. Clients may contract directly with third party vendors for an asset liability analyses in which case MSSB and Graystone will not commit to this service contractually or charge an additional fee. Manager searches are \$5,000 per search. Performance measurement services are provided for an on-going retainer of \$2,000 to \$5,000 per year and \$1,000 to \$2,000 per year for combined accounts.

Graystone Discretionary Services

The fees for Graystone Discretionary Services are negotiable and are typically subject to a \$25 million portfolio minimum. Fees are generally charged quarterly in advance and are based on a number of factors including the specific services to be provided, which may result in a particular client paying a fee greater than the standard fees. The standard asset based fee schedule is as follows:

Account Asset Value	Annual Fee
On the first \$25,000,000	0.84%
On the next \$25,000,000	0.375%
On the next \$50,000,000	0.25%
On the next \$100,000,000	0.13%
Over \$200,000,000	Negotiable

Alternative Investments Performance Reporting.

For purposes of calculating the fees for this service, the market value of the alternative investments shall be based on the then currently available market value, estimated or actual, as reported by the Performance Reporting AI. Graystone does not independently verify such information. The fee shall not be charged on committed, but not yet funded, investments. The fee on the first \$5 million of assets is .25%. The fee on the next \$5 million of assets is .11%. The fee on the next \$15 million of assets is .10%. The fee on the next \$25 million of assets is .09%. The fee on the next \$50 million of assets is .05%. The fee on the next \$100 million of assets is .045%. The fee on assets in excess of \$200 million is negotiable.

Participant-Directed Retirement Plans

Fees may be charged quarterly and in advance or in arrears and may be based on a number factors. The fees are negotiable. Factors include the size of the account and the number and range of advisory and client related services to be provided. The maximum annual asset based fee is 0.60%. The standard asset based fee schedule for participant directed retirement plans is as follows:

Account Asset Value	Annual Fee
On the first \$5,000,000	0.60%
On the next \$5,000,000	0.40%
On the next \$15,000,000	0.25%
On the next \$25,000,000	0.15%
On the next \$50,000,000	0.08%
On the next \$100,000,000	0.05%
Over \$200,000,000	negotiable

In addition, the client may select any of the following services subject to the minimum fees set forth and an overall minimum engagement fee of \$15,000. For investment policy statements the minimum fee is \$5,000 initially and \$2,500 for updates. For asset allocation analysis the minimum fee is \$7,500 initially and \$3,000 for updates. For mutual fund searches the minimum fee is \$5,000. For performance measurement the fee \$2,000 to \$5,000 per fund charged in the form of an annual retainer only. For generic participant education the fee is \$1,500 per day (please note that participant education is not intended to be a stand alone service and will be offered in addition to a full consulting assignment. Participant education can be included as part of the overall asset-based fee or separately at the \$1,500 per day rate).

In addition, fees for other services provided to participant directed programs are as follows:

- *Provider Search Assistance Fee.* For single service engagements, a plan can be charged a one-time fee of \$5,000 - \$30,000 which will be billed upon completion of the service. For on-going consulting engagements, Provider Search Assistance fees may be charged in addition

to the overall institutional services asset-based and/or hard dollar fee, as listed above.

- **Fee Benchmarking Fee.** For single service engagements, a plan can be charged a one-time fee of \$3,500 - \$15,000 which will be billed upon completion of the service. For on-going consulting engagements, Fee Benchmarking fees may be charged in addition to the overall institutional services asset-based and/or hard dollar fee, as listed above.

General Fee Information

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

The fee is payable as described in the Client Agreement. Generally, the initial fee is due in full on the date you open your account at Graystone Consulting and is based on the market value of the account on that date. The initial fee payment covers the period from the opening date through (at your election) the last business day of the current quarter or the next full calendar quarter and is prorated accordingly. Thereafter, the fee is paid quarterly in advance based on the account's market value on the last business day of the previous calendar quarter and is due the following business day. Unless the client elects to custody assets at a third-party custodian, the Client Agreement authorizes CGM or MSSB to deduct fees when due from the assets contained in the account.

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

While all fund families are provided with sponsorship opportunities, certain fund families (referred to as "Global Partners") dedicate significant financial and staffing resources to these activities and may receive additional opportunities to sponsor firm events and to promote their own funds to Financial Advisors and clients instead of funds from those fund families that do not commit similar resources to educational, marketing and other promotional events. MSSB selects the fund families that are Global Partners based on a number of quantitative and qualitative criteria.

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

Investment managers are allowed to occasionally give nominal gifts to Financial Advisors and to occasionally entertain Financial Advisors subject to a limit of \$1,000 per employee per

year. MSSB's non-cash compensation policies set conditions for each of these types of payments, and they do not permit any gifts or entertainment conditioned on the achievement of a sales target.

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

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

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

B. Comparing Costs

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

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

C. Additional Fees

If you open an account in one of the programs described in this brochure, you may pay us an asset-based fee for investment

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

- the costs of investment management fees and other expenses charged by Funds (see below for more details)
- “mark-ups,” “mark-downs,” and dealer spreads (A) that MSSB or its affiliates may receive when acting as principal in certain transactions where permitted by law or (B) that other broker-dealers may receive when acting as principal in certain transactions effected through MSSB and/or its affiliates acting as agent, which is typically the case for dealer market transactions (e.g., fixed income and over-the-counter equity)
- brokerage commissions or other charges resulting from transactions not effected through MSSB or its affiliates
- MSSB account establishment or maintenance fees for its Individual Retirement Accounts (“IRA”) and Versatile Investment Plans (“VIP”), which are described in the respective IRA and VIP account and fee documentation (which may change from time to time)
- account closing/transfer costs
- processing fees 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 Graystone Consulting Programs

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

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

Custody

MSSB/CGM do not act as custodian. If you retain a custodian other than MSSB or CGM, your outside custodian will advise you of your cash sweep options and as described in the Client Agreement, you will have the option of instructing us on whether you want the Graystone Consulting fee billed to you directly or to the outside custodian selected by you.

MSSB/CGM act as custodian. Unless you instruct us otherwise, MSSB/CGM will maintain custody of all cash, securities and other assets in the account and the following sections on cash sweeps will apply to you.

Cash Sweeps

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

- interest-bearing bank deposit accounts (“Deposit Accounts”) established under the Bank Deposit Program (“BDP”) or
- money market mutual funds (each, a “Money Market Fund” and, together with BDP Deposit Accounts, “Sweep Investments”). These money market funds are managed by Morgan Stanley Investment Advisors Inc. or another MSSB affiliate except for SB Channel retirement and Coverdell Education Savings accounts: The “sweep” money market funds are managed by an unaffiliated manager.

If you do not select a Sweep Investment when you open your account, your Sweep Investment will be BDP if you are eligible (MS Channel accounts and Converted Accounts) or selected by your Graystone Consultant (SB Channel accounts).

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

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

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

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

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

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

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

If BDP is your Sweep Investment, you should be aware that, each Sweep Bank will pay MSSB a fee equal to the percentage of the average daily deposit balances in your Deposit Account at the Sweep Banks. Your Financial Advisor or Graystone Consultant will not receive a portion of these fees or credits. In addition, MSSB will not receive cash compensation or credits in connection with the BDP for assets in the Deposit Accounts for retirement plans or Coverdell Education Savings accounts. Also, the affiliated Sweep Banks have the opportunity to earn income on the BDP assets through lending activity, and that income is usually significantly greater than the fees MSSB earns on affiliated Money Market Funds. Thus, MSSB has a conflict of interest in selecting or recommending BDP as the sweep fund, rather than an eligible Money Market Fund.

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

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

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

Each of these Money Market Funds is a separate investment with different investment objectives. Their fees, expenses, minimum investment requirements, dividend policies and procedures may vary. Before you invest in any Money Market Fund, read its prospectus carefully. Money Market Fund shares are neither insured nor protected by the FDIC. Investment in any

money market fund is a purchase of securities issued by the money market fund, not a bank deposit.

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

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

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

If account cash balances are invested in Money Market Funds sponsored or managed by MSSB affiliates, we receive and retain fund fees up to 0.18% from those Money Market Funds or those money market funds' affiliates. Therefore, MSSB has a conflict of interest in recommending that a portion of your account be invested in money market funds. **For retirement accounts with cash balances invested in money market funds sponsored or managed by MSSB affiliates, certain fees received and retained by such MSSB affiliates will be credited to the account or offset against the advisory program fee. Please see the attached Exhibit "Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement" for more details.**

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

D. Compensation to Graystone Consulting

If you invest in one of the programs described in this brochure, a portion of the fees payable to us in connection with your account is allocated on an ongoing basis to Graystone Consultants. The amount allocated to your Graystone Consultants in connection with accounts opened in programs described in this brochure may or may not be more than if you participated in other MSSB investment advisory programs, or if you paid separately for investment advice, brokerage and other services. Your Graystone Consultant may therefore have a financial incentive to

recommend one of the programs in this brochure instead of other MSSB programs or services.

If you invest in one of the programs described in this brochure, Graystone Consulting may charge a fee less than the maximum fee stated above. The amount of the fee you pay is a factor we use in calculating the compensation we pay your Graystone Consultant. Therefore, Graystone Consultants have a financial incentive not to reduce fees

Item 5: Account Requirements and Types of Clients

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

Item 6: Portfolio Manager Selection and Evaluation

A. Selection and Review of Portfolio Managers for the Programs

This Item 6.A describes more generally how we select and terminate Investment Options from these programs described in this brochure. If managers have more than one strategy, we may include only some of those strategies in the programs described in this brochure, may carry different strategies in different programs, and assign different statuses to different strategies. Please refer to the discussion in Section 4 A. for a complete description of the programs.

Consulting Group Investment Advisor Research

Our Consulting Group Investment Advisor Research department (“CG IAR”) evaluates Investment Products. CG IAR may delegate some or all of its functions to an affiliate or third party. Investment Products may only participate in the FS or CES programs if they are on CG IAR’s Focus List or Approved List discussed below. The Focus List and Approved List are at www.morganstanleyindividual.com

[/accountoptions/managedmoney/manager/default.asp](http://accountoptions/managedmoney/manager/default.asp) (or you can ask your Graystone Consultant for these lists). In each program, only some of the Investment Products may be available.

As well as requiring Investment Products to be on the Focus List or Approved List, we look at other factors in determining which Investment Products we offer in these programs, including:

- program needs (such as whether we have a sufficient number of Investment Products available in an asset class)
- client demand and
- the manager’s or Fund’s minimum account size.

We automatically terminate Investment Products in the CES and FS programs if CG IAR downgrades them to “Not Approved.” We may terminate Investment Products from these programs for other reasons (e.g., the Investment Product has a low level of assets under management in the program, the Investment Product has limited capacity for further investment, or the Investment Product is not complying with our policies and procedures).

Focus List. To be considered for the Focus List, Investment Products provide CG IAR with relevant documentation on the strategy being evaluated, which may include sample portfolios, asset allocation histories, its Form ADV (the form that investment managers use to register with the SEC), past performance information and marketing literature. For verification purposes, as part of the review process CG IAR may compare the manager’s/Fund’s reported performance with the performance of a cross-section of actual accounts calculated by CG IAR. CG IAR personnel may also interview the manager or Fund and its key personnel, and examine its operations. Following this review process, Investment Products are placed on the Focus List if they meet the required standards for Focus List status.

CG IAR periodically reviews Investment Products on the Focus List. CG IAR considers a broad range of factors (which may include investment performance, staffing, operational issues and financial condition). Among other things, CG IAR personnel interview each manager or Fund periodically to discuss these matters. If CG IAR is familiar with a manager or Fund following repeated reviews, CG IAR is likely to focus on quantitative analysis and interviews and not require in-person meetings. CG IAR may also review the collective performance of a composite of the MSSB accounts managed by a manager/Fund and compare this performance to overall performance data provided by the manager/Fund, and then investigate any material deviations.

Approved List. The process for considering Investment Products for the Approved List is less comprehensive, and evaluates various qualitative and quantitative factors. These may include personnel depth, turnover and experience; investment process; business and organization characteristics; and investment performance. CG IAR may use an algorithm – a rules-based scoring mechanism – that reviews various qualitative and quantitative factors and ranks each Investment Product in a third party database. (Not all Investment Products reviewed for the Approved List are subject to this algorithm.) CG IAR analysts analyze the information contained in the algorithm to gauge the completeness and consistency of the data which drive the rankings, and then send the manager or Fund additional information requests. CG IAR then determines whether the Investment Product meets the standards for Approved List status. Furthermore, CG IAR may evaluate an Investment Product under the evaluation process for the Focus List but then decide to instead put it on the Approved List.

CG IAR periodically evaluates Investment Products on the Approved List to determine whether they continue to meet the Approved List standards.

Changes in Status from Focus List to Approved List. In light of the differing evaluation methodology and standards for the Focus List and Approved List, CG IAR may determine that an Investment Product no longer meets the criteria for the Focus List or will no longer be reviewed under the Focus List review process, but meets the criteria for the Approved List. If so, MSSB generally notifies program clients regarding such status changes on a quarterly basis.

Changes in Status to Not Approved. CG IAR may determine that an Investment Product no longer meets the criteria under either evaluation process and therefore the Investment Product will no longer be recommended in MSSB investment advisory programs. We notify affected clients of these downgrades. You cannot retain a downgraded manager or Fund in your accounts and must select a replacement from the Approved List or Focus List, that is available in the program, if you wish to retain the program's benefits in respect of the affected assets.

In some circumstances, you may be able to retain terminated Investment Products in another advisory program or in a brokerage account subject to the regular terms and conditions applying to that program or account. Ask your Graystone Consultant about these options.

MSSB generally specifies a replacement Investment Product for a terminated Investment Product in FS (as discussed in Item 4.A above). In selecting the replacement Investment Product, CG IAR generally looks for an Investment Product in the same asset class, and with similar attributes and holdings to the terminated Investment Product. The replacement Investment Product will typically be on the Focus List.

Watch Policy. CG IAR has a "Watch" policy for Investment Products on the Focus List and Approved List. Watch status indicates that, in reviewing an Investment Product, CG IAR has identified specific areas of the manager's or Fund's business that (a) merit further evaluation by CG IAR and (b) may, but are not certain to, result in the Investment Product becoming "Not Approved." Putting an Investment Product on Watch does not signify an actual change in CG IAR opinion nor is it a guarantee that CG IAR will downgrade the Investment Product. The duration of a Watch status depends on how long CG IAR needs to evaluate the Investment Product and for the Investment Product to address any areas of concern. For additional information, ask your Graystone Consultant for a copy of CG IAR's Watch Policy.

Tactical Opportunities List. CG IAR also has a Tactical Opportunities List. This consists of certain Investment Products on the Focus List or Approved List recommended for investment at a given time based in part on then-existing tactical opportunities in the market.

Other Relationships with Managers and Funds. Some managers and Funds on the Approved List or Focus List may have business relationships with us or our affiliates. For example, a manager or Fund may use MS&Co. or a Citi affiliate as its broker or may be an investment banking client of MS&Co. or a Citi affiliate. CG IAR does not consider the existence nor lack of a business relationship in determining whether to include or maintain a manager or Fund on the Approved List or Focus List.

Graystone Due Diligence

In addition to the managers and Funds reviewed by CG IAR, Graystone Consultants may offer clients access to additional managers and Funds that have been reviewed by Graystone due diligence.

Graystone Mutual Fund Due Diligence. Select Graystone teams have the ability to conduct due diligence on mutual fund products based on information provided by the investment managers and/or outside independent databases, all unaffiliated with MSSB. Graystone does not independently verify such information supplied by investment managers and independent databases, and shall not be liable for any misstatement or omission made by the Manager or the independent databases.

Mutual funds that are identified by Graystone undergo a rigorous assessment of the fund's capabilities. This assessment begins with a request for information ("RFI"). This RFI is substantially similar to the one used by the MSSB mutual fund area in determining which mutual funds to bring on the MSSB platform. After the RFI is completed, the fund's performance is reviewed.

Graystone teams must then complete investment due diligence. This due diligence consists of speaking with managers and gathering information through an additional RFI and manager material. The Graystone Director of Research reviews the due diligence for completeness. Only after the Graystone Director of Research approves the report is the report available to clients. In addition, after the Graystone Director of Research's review, the firm's CG IAR group can (but is not obligated to) approve or disapprove the Report prior to it being available to the client.

The process utilizes both quantitative screening and qualitative assessment of all Funds. Generally, the Graystone due diligence process is supplemented with follow-up analysis on investment managers. Funds subject to this process are either approved or not approved for use in the Institutional Consulting Services programs. Graystone and MSSB do not maintain a Watch List for these funds equivalent to CG IAR's Watch List.

Graystone Manager Assessment Program ("MAP"). The MAP program is a proprietary tool that assesses all separate account managers within a third party database in order to narrow the list of potential investment managers before conducting further qualitative analysis. The managers approved through the MAP program are for the use of Graystone Consulting and other select Financial Advisors.

Graystone MAP Evaluation. The MAP program is generally complemented with follow-up analysis on investment managers focusing on the qualitative aspects of due diligence, e.g., quality of investment professionals and assessment of the manager's investment process. Only after completing the required follow-up assessment will an investment manager be recommended to a client. MSSB leverages proprietary technology to allow manager assessments to be shared across certain programs at MSSB.

On-Going Coverage. Once a manager is recommended, MAP reevaluates the manager on a periodic basis. Sponsoring Graystone teams will also conduct periodic follow-up interviews

with managers. Information from manager visits and other communications may be shared with the Graystone Director of Research, other Graystone Consulting teams and other select Financial Advisors.

Graystone MAP provides a unique screening of the potential manager universe. However, nothing can replace the value of local qualitative manager assessment. Consequently, Graystone Institutional Consulting Directors generally complement the Graystone MAP assessment by conducting follow up analysis on investment managers focusing on the qualitative aspects of due diligence e.g., quality of investment professionals and assessment of the manager's investment process. Only after completing required qualitative follow-up assessment will an investment manager be recommended to a client.

A significant advantage of Graystone MAP is the ability to leverage investment ideas across various Graystone teams. Accordingly, Graystone MAP leverages proprietary technology to ensure that manager assessments are shared across Graystone teams to ensure effective knowledge transfer.

DC Investment Consulting Fund Screening (*For Participant-Directed Plans only*). In addition to the mutual funds and ETFs that appear on the Focus List and Approved List of CG IAR described above, for clients in the Institutional Consulting Services program for participant directed retirement plans, funds may be "approved" for the program in an alternate manner, as well. MSSB applies a proprietary screening process to funds in the Morningstar mutual fund database, which it applies in part using third party software. The screening algorithm, applied quarterly, is based on factors such as performance, ranking, stewardship grade, fees and manager tenure. Funds subject to this process are either approved or not approved for use in the Institutional Consulting Services program for participant directed retirement plans. Graystone and MSSB do not maintain a Watch List for these funds equivalent to CG IAR's Watch List.

Selection of Alternative Investments

Alternative investment managers may only participate in the traditional Institutional Consulting Services and Graystone discretionary programs described in this brochure if they are on MSSB's Alternatives Approved List (described below). Managers often offer more than one alternative investment and we may include only some of those alternative investments (or only certain share classes of such alternative investment) in our programs, may carry different alternative investments (or share classes) in different programs, and assign different statuses to different alternative investments.

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

In the programs, investment and business risk due diligence on alternative investments is provided by MSSB through (i) our Alternative Investments Research group ("AIR"), (ii) an affiliate of MSSB that may provide due diligence and monitoring

services, or (iii) an independent consulting firm retained by MSSB that is also in the business of evaluating the capabilities of alternative investments. Any firm providing due diligence will generally follow a methodology similar to that used by AIR (described below) in reviewing such alternative investments.

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

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

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

MSSB removes alternative investments from the programs if AIR, or the due diligence service provider responsible for coverage of the alternative investment downgrades the alternative investment to "Terminate". We may terminate managers from these programs for other reasons (e.g., the manager has a low level of assets under management in the program, the manager has limited capacity for further investment, or the manager is not complying with our policies and procedures). AIR's head of research can remove an alternative investment vehicle from the Alternatives Approved List without consulting the AIPRC, but all actions must be assessed by the AIPRC at the next meeting.

Watch Policy. MSSB has a "Watch" policy for alternative investments on the Approved List. Watch status indicates that, in reviewing an alternative investment, AIR has identified specific areas related to the alternative investment, the manager of the alternative investment, or the markets in general that (i)

merit further evaluation by AIR and (ii) may, but are not certain to, result in the removal of the alternative investment from the “Approved List”. Putting an alternative investment on Watch does not signify an actual change in AIR opinion nor is it a guarantee that AIR will remove the alternative investment. The duration of a Watch status depends on how long AIR needs to evaluate the reason for the status change, which may include, among things, an evaluation of the markets, the alternative investment, and the manager of the alternative investment.

Calculating Portfolio Managers’ Performance

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

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

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

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

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

If you invest in a fund of funds, your account documents may use the HFRI Fund of Funds as a benchmark. The FoF Composite consists of over 800 domestic and offshore funds of hedge funds that have at least \$50 million under management or have been actively trading for at least 12 months. It is equally weighted on a fund by fund basis and fund assets are reported in USD on a net of fees basis. It is updated three times a month and the current month’s and the prior three months’ values are subject to change. MSSB is not obligated to notify you of any such changes. The FoF Composite values are likely to be more up-to-date than the data for the selected Investment Options for

which it is the benchmark. You cannot invest in the FoF Composite. For more information see <https://www.hedgefundresearch.com>.

B. Conflicts of Interest

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

Payments from Managers. Investment managers may sponsor their own educational conferences and pay expenses of MSSB Financial Advisors, including Graystone Consultants, attending these conferences. MSSB’s policies require that the training or educational portion of these conferences comprises substantially the entire event. Investment managers may sponsor educational meetings or seminars in which clients as well as Graystone Consultants are invited to participate.

Investment managers are allowed to occasionally give nominal gifts to MSSB Financial Advisors, including Graystone Consultants, and to occasionally entertain such persons, subject to a limit of \$1,000 per employee per year. MSSB’s non-cash compensation policies set conditions for each of these types of payments, and do not permit any gifts or entertainment conditioned on the achievement of a sales target.

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

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

Payments from Managers of Alternative Investments. Managers of alternative investments offered in the programs described in this brochure may agree to pay MSSB additional fees. We have a conflict of interest in offering alternative investments because we or our affiliates earn more money in your account from your investments in alternative investments than from other investment options. However, in cases where we receive a portion of the management fee paid by you to a manager of an alternative investment and we charge a program fee under the programs in this brochure, we credit such fee to your account. Also, we do not share this money with your Graystone Consultant (i.e. the compensation we pay to your Graystone Consultant is not affected by the payments we receive

from the alternative investments). Therefore, your Graystone Consultant does not have a resulting incentive to buy alternative investments in your account, or to buy certain alternative investments rather than other alternative investments in any of the programs in this brochure.

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

These relationships create a conflict of interest for us or our affiliates, as there is a financial incentive to recommend the investments. We address this conflict of interest by disclosing it to you and by requiring Graystone Consultants' supervisors to review your account at account-opening to ensure that it is suitable for you in light of matters such as your investment objectives and financial circumstances.

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

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

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

Trade Allocations. In certain cases trades may be aggregated so that the securities will be sold or purchased for more than one client in order to obtain favorable execution to the extent permitted by law. The Investment manager will then allocate the trade in a manner that is equitable and consistent with its 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 Graystone Consultant 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, and for Converted Accounts.

MS&Co. is the clearing broker for some MS Channel clients, typically those with accounts administered by the MS Channel’s Private Wealth Management division. CGM is the clearing broker for SB Channel clients.)

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

C. Graystone Consultants Acting as Portfolio Managers

Description of Advisory Services

Graystone Consultants only act as portfolio managers under the Graystone Discretionary Services program and not any other program described in this brochure. See Item 4.A above for a description of the services offered in the programs described in this brochure.

Performance-Based Fees

The programs described in this brochure do not charge performance-based fees.

Methods of Analysis and Investment Strategies

Graystone Consultants in the programs described in this brochure may use any investment strategy when providing investment advice to you. Graystone Consultants may use asset allocation recommendations of the MSSB 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.

Proxy Voting

Graystone Consulting does not offer proxy voting services to its clients for its traditional institutional consulting services. In Graystone Discretionary Services, clients may elect to:

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

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

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

Item 7: Client Information Provided to Portfolio Managers

Graystone Consulting and investment managers have access to the information you provide at account opening.

Item 8: Client Contact with Portfolio Managers

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

Item 9: Additional Information

Disciplinary Information

This section contains information on certain legal and disciplinary events.

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

- The National Association of Securities Dealers Inc. (“NASD”) alleged that between October, 1999 and December, 2002, MSDW violated the non-cash compensation provisions of the NASD Conduct Rules (under which MSDW was prohibited from providing its Financial Advisors with non-cash compensation for sales of mutual funds and variable annuities that were not based on total sales and equal weighting). MSDW offered rewards to its Financial Advisors for sales of affiliated mutual funds in general, or particular affiliated mutual funds or certain variable annuities. By a Letter of Acceptance, Waiver and Consent (“LAWC”) dated September 15, 2003, MSDW agreed to (1) fines totaling \$2.25 million; (2) update its compliance systems and procedures; and (3) retain an independent consultant to review and make recommendations on MSDW’s supervisory and compliance procedures.
- On April 28, 2003, the SEC filed a complaint alleging that MS & Co. violated certain NASD and New York Stock Exchange (“NYSE”) Conduct Rules (collectively, the “Conduct Rules”) by creating conflicts of interest for its research analysts with respect to investment banking activity, failing to adequately manage such conflicts, failing to ensure, in offerings where MS & Co. was the lead underwriter, that payments made to other broker-dealers for publishing research reports were disclosed by the issuers in the offering documents and the other broker-dealers in their research reports, and failing to supervise properly its research analysts, including with respect to the ratings, price targets and content of the reports of senior research analysts. Without admitting or denying the substantive allegations in the complaint, on October 31, 2003, MS & Co. consented to the entry of a final judgment that enjoined MS & Co. from violating the Conduct Rules and required it to make payments of \$50 million for past conduct and allocate \$75 million to fund independent research. In addition, MS & Co. agreed to a number of structural changes to the operations of its equity research and investment banking operations. Concurrently, MS & Co. also entered into a settlement with the NYSE, the NASD and the Attorney General of the State of New York with respect to the same conduct specified in the complaint. MS & Co. is also in the process of finalizing settlements with the other state and territorial securities administrators.
- In 2003, Solomon Smith Barney (“SSB”), now known as CGM, settled civil and regulatory actions brought by the SEC, the NYSE, the NASD, the Attorney General of the State of New York (“NYAG”), and state securities regulators, which alleged violations of certain federal and state securities laws and regulations, and certain NASD and NYSE rules, by SSB arising out of certain business practices concerning sell-side research during 1999 to 2001, and initial public offerings (“IPOs”) during 1996 to 2000. The actions alleged, among other things, that SSB published fraudulent research reports, permitted inappropriate influence by investment bankers over research analysts, and failed to adequately supervise the employees who engaged in those practices. It was also alleged that SSB engaged in improper “spinning” of shares to executives of investment banking clients and failed to maintain policies and procedures reasonably designed to prevent the potential misuse of material non-public information in certain circumstances. Without admitting or denying the findings, SSB consented to (1) censures by NASD and the NYSE; (2) cease and desist orders in state proceedings prohibiting SSB from violating certain state laws and regulations; (3) a judgment prohibiting SSB from violating certain laws and regulations; (4) certain operational reforms; (5) participating in a voluntary initiative pursuant to which SSB will no longer make allocations of securities in hot IPOs to accounts of executive officers or directors of U.S. public companies; and (6) a payment of \$400 million.
- The SEC alleged disclosure violations in connection with marketing arrangements between MSDW and certain mutual fund complexes in connection with the offer and sale of class B shares in certain Morgan Stanley proprietary mutual funds in the amount of \$100,000 or more in a single transaction.

The SEC also alleged that receipt of directed brokerage commissions as payment for such marketing arrangements contravened NASD Rule 2830(k). On November 17, 2003, without admitting or denying the findings, MSDW consented to orders including a censure; a cease and desist; and an undertaking to distribute, for the benefit of certain customers, \$50 million dollars, consisting of disgorgement plus prejudgment interest in the amount of \$25 million and civil penalty of \$25 million. MSDW also made certain other undertakings including (1) preparing and distributing certain disclosures and a mutual fund bill of rights; (2) permitting certain class B shares to be converted to class A shares; and (3) retaining an independent consultant to review, among other things, the completeness of the disclosures and conformity with other aspects of the order.

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

and the intended holding period. The SEC order censured CGM, required CGM to cease and desist from future violations of the applicable provisions, and required CGM to pay a \$20 million penalty.

- In March 2005, the NASD censured and fined CGM with respect to CGM's offer and sale of Class B and Class C mutual fund shares during 2002 and the first six months of 2003. The NASD found that CGM either had not adequately disclosed at the point of sale, or had not adequately considered in connection with its recommendations to clients to purchase Class B and Class C shares, the differences in share classes and that an equal investment in Class A shares generally would have been more advantageous for the clients. The NASD also found that CGM's supervisory and compliance policies and procedures regarding Class B and Class C shares had not been reasonably designed to ensure that SB Financial Consultants consistently provided adequate disclosure of, or consideration to, the benefits of the various mutual fund share classes as they applied to individual clients. The NASD censured CGM and required CGM to pay a \$6.25 million fine.
- On May 31, 2005, the SEC issued an order in connection with the settlement of an administrative proceeding against Smith Barney Fund Management LLC ("SBFM") and CGM relating to the appointment of an affiliated transfer agent for the Smith Barney family of mutual funds ("Smith Barney Funds"). SBFM was an affiliate of CGM during the applicable period.

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

establish wrongdoing or liability for purposes of any other proceeding.

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

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

- In a LAWC dated August 1, 2005, the NASD found that MSDW failed to establish and maintain a supervisory system, including written procedures, reasonably designed to review and monitor MSDW's fee-based brokerage business, between January 2001 and December 2003. Without admitting or denying the allegations, MSDW consented to the described sanctions and findings and was censured and fined \$1.5 million, and agreed to the payment of restitution to 3,549 customers in the total amount of approximately \$4.7 million, plus interest.
- The SEC alleged that MS & Co. violated the Exchange Act by inadvertently failing to timely produce emails to the SEC staff pursuant to subpoenas in the SEC's investigation into MS & Co.'s practices in allocating shares of stock in IPOs and an investigation into conflicts of interest between MS & Co.'s research and investment banking practices. Without admitting or denying the allegations, MS & Co. consented to a final judgment on May 12, 2006 in which it was permanently restrained and enjoined from violating the Exchange Act. MS & Co. agreed to make payments aggregating \$15 million, which amount was reduced by \$5 million contemporaneously paid by MS & Co. to the NASD and the NYSE in related proceedings. MS & Co. also agreed to notify the SEC, the NASD and the NYSE that it has adopted and implemented policies and procedures reasonably designed to ensure compliance with the Exchange Act. MS & Co. also agreed to provide annual training to its employees responsible for preserving or producing electronic communications and agreed to retain an independent consultant to review and comment on the implementation and effectiveness of the policies, procedures and training.

- On June 27, 2006, the SEC announced the initiation and concurrent settlement of administrative cease and desist proceedings against MS & Co. and MSDW for failing to maintain and enforce adequate written policies and procedures to prevent the misuse of material nonpublic information. The SEC found that from 1997 through 2006, MS & Co. and MSDW violated the Exchange Act and the Advisers Act by failing to (1) conduct any surveillance of a number of accounts and securities; (2) provide adequate guidance to MS & Co.'s and MSDW's personnel charged with conducting surveillance; and (3) have adequate controls in place with respect to certain aspects of "Watch List" maintenance. The SEC's findings covered different areas from the 1997 through 2006 time period. MS & Co. and MSDW were ordered to pay a civil money penalty of \$10 million and agreed to enhance their policies and procedures.
- On August 21, 2006, MS & Co. and MSDW entered into a 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 Graystone Consultant.

Other Financial Industry Activities and Affiliations

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

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

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

Broker-Dealer and FCM Registrations. As well as being a registered investment advisor, MSSB is registered as a broker-dealer and a futures commission merchant.

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

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

These restrictions may adversely impact client account performance.

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

Related Investment Advisors and Other Service Providers. MSSB has related persons that are registered investment advisers in various investment advisory programs (including Morgan Stanley Investment Management Inc., Morgan Stanley Investment Advisors Inc. and Morgan Stanley Investment Management Limited). If you invest your assets and use an affiliated firm to manage your account, MSSB and its affiliates earn more money than if you use an unaffiliated firm. Generally, for ERISA or other retirement accounts, MSSB rebates or offsets fees so that MSSB complies with IRS and Department of Labor rules and regulations.

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

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

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

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

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

Code of Ethics

MSSB's Investment Adviser Code of Ethics ("Code") applies to its employees, supervisors, officers and directors engaged in offering or providing investment advisory products and/or services (collectively, the "Employees"). In essence, the Code prohibits Employees from engaging in securities transactions or activities that involve a material conflict of interest, possible diversion of a corporate opportunity, or the appearance of impropriety. Employees must always place the interests of MSSB's clients above their own and must never use knowledge of client transactions acquired in the course of their work to their

own advantage. Supervisors are required to use reasonable supervision to detect and prevent any violations of the Code by the individuals, branches and departments that they supervise.

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

- An Employee who wishes to conduct business activity outside of his or her employment with MSSB, regardless of whether that Employee receives compensation for this activity, must first obtain written authorization from his or her supervisor. (Outside activities include serving as an officer or director of a business organization or non-profit entity, and accepting compensation from any person or organization other than MSSB.)
- Employees are generally prohibited from giving or receiving gifts or gratuities greater than \$100 per recipient per calendar year to or from persons or organizations with which MSSB has a current or potential business relationship, clients, or persons connected with another financial institution, a securities or commodities exchange, the media, or a government or quasi-governmental entity.
- Employees cannot enter into a lending arrangement with a client (unless they receive prior written approval from their supervisor and MSSB's Compliance Department).
- MSSB maintains a "Restricted List" of issuers for which it may have material non-public information or other conflicts of interest. Employees cannot, for themselves or their clients, trade in securities of issuers on the "Restricted List" (unless they receive prior written approval from the Compliance department).
- Certain Employees, because of their potential access to non-public information, must obtain their supervisors' prior written approval before executing certain securities transactions for their personal securities accounts. All Employees must also follow special procedures for investing in private securities transactions.
- Certain Employees are subject to further restrictions on their securities transaction activities (including Financial Advisors and other MSSB employees who act as portfolio managers in MSSB investment advisory programs).

You may obtain a copy of the Code of Ethics from your Graystone Consultant.

See Item 6.B above.

Reviewing Accounts

At account opening, your Graystone Consultant must ensure that, and the Branch Manager confirms that, the account and the investment style are suitable investments for you.

For Traditional institutional consulting service accounts, your Graystone Consultant is then responsible for reviewing your account on an ongoing basis and will recommend different asset allocations at any time according to market conditions. Your Graystone Consultant will ask you at least annually if your investment objectives have changed. If your objectives change,

your Graystone Consultant will modify your asset allocation to be suitable for your needs.

For Graystone discretionary service accounts, your Graystone Consultant is then responsible for reviewing your account on an ongoing basis and may adjust your portfolio and will recommend different asset allocations at any time according to market conditions. Your Graystone Consultant will ask you at least annually if your investment objectives have changed. If your objectives change, Graystone Consultant will modify your portfolio to be suitable for your needs.

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

Client Referrals and Other Compensation

See “Payments from Mutual Funds” in Item 6.B above.

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

Financial Information

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

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

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

Exhibit: Affiliated Money Market Funds Fee Disclosure Statement

and Float Disclosure Statement

(APPLIES ONLY TO MS CHANNEL AND CONVERTED RETIREMENT PLAN ACCOUNTS AND CESAs)

Sweep Vehicles in Retirement Accounts and CESAs

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

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

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

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

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

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

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

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

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

Interest Earned on Float

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

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

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

Generally, with respect to such assets awaiting investment:

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

MSSB as an ERISA fiduciary

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

- The rate of Advisory Fee and Distribution and Service Fees (including 12b-1 fees) (whether in basis points or dollars) may not be increased without first obtaining shareholder approval.

- Expenses designated as “Other Expenses” include all expenses not otherwise disclosed in the table that were deducted from each fund’s assets or charged to all shareholder accounts in the stated fiscal year (and may change from year to year).

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

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

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

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

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

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