

Form ADV Wrap Fee Program Brochure Morgan Stanley Smith Barney LLC

Consulting Group Advisor Program

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This wrap fee program brochure provides information about the qualifications and business practices of Morgan Stanley Smith Barney LLC (“MSSB”). If you have any questions about the contents of this brochure, please contact us at (914) 225-1000. 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 30, 2012. For more details on any particular matter, please see the item in this ADV brochure referred to in the summary below.

Ownership of MSSB; Merger of Investment Advisory Programs. Prior to June 28, 2013 MSSB was owned by a joint venture company which was indirectly owned 65% by Morgan Stanley (“Morgan Stanley Parent”) and 35% by Citigroup Inc. (“Citi”). On June 28, 2013 Morgan Stanley Parent purchased Citi’s 35% interest in MSSB. Accordingly, MSSB is now a wholly owned indirect subsidiary of Morgan Stanley Parent.

MSSB used to provide investment advisory services through two channels. One channel generally provided the investment advisory programs previously provided by Smith Barney and/or Citigroup Global Markets Inc., and the other channel generally provided the investment advisory programs previously provided by Morgan Stanley & Co. Incorporated. In 2012, MSSB merged the advisory programs previously provided in the Smith Barney and Morgan Stanley channels. Now that this merger of the Smith Barney Channel and the Morgan Stanley Channel is complete, unless you selected an external custodian, all clients’ assets are held in custody at MSSB (except for “sweep” assets, which are held in custody at the Sweep Banks pursuant to the Bank Deposit Program). (Item 4)

Consulting Group Trust Services. MSSB has made arrangements with external trust companies to enhance the administrative and operational experience of clients who appoint such an external trust company while MSSB provides investment advisory services. These arrangements could pose a conflict of interest. (Item 4.A)

Mutual Funds in Advisory Programs. MSSB receives payments from mutual fund companies whose open-end mutual funds are offered through the Consulting Group Advisor program of up to 0.16% per year of the assets of such

mutual funds that are held by those MSSB clients that are not Retirement Plans (as defined herein). (Item 4.C)

Cash Sweeps. MSSB will, as your custodian, effect “sweep” transactions of uninvested cash and allocations to cash, if any, in your account into:

- interest-bearing bank deposit accounts established under the Bank Deposit Program (“BDP”) at banks affiliated with MSSB or
- money market mutual funds. These money market funds are managed by Morgan Stanley Investment Management Inc. or another MSSB affiliate.

If you do not select a Sweep Investment when you open your account, your Sweep Investment will be BDP if you are eligible. (Item 4.C)

Recommendations from your Financial Advisor (for non-retirement clients). Your Financial Advisor may recommend transactions based on information obtained from various sources which may include ideas generated by the trading desks at MSSB or its affiliates. Some of these trade ideas might result in a principal transaction which would involve purchasing from or selling to the inventory of MSSB or its affiliates and as a result, may present a potential conflict of interest. (Item 6.B)

Pricing of securities in Principal Transaction (for non-retirement clients). MSSB and its affiliates price the securities in their inventory based on comparable securities in both the primary and secondary markets. (Item 6.B)

Smith Barney Advisor. Smith Barney Advisor (SBA) accounts have been converted to Consulting Group Advisor accounts and hence details of the SBA program have been deleted from this ADV brochure. (Item 4)

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Item 4: Services, Fees and Compensation

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

Prior to June 28, 2013, MSSB was owned by a joint venture company which was indirectly owned 65% by Morgan Stanley (“Morgan Stanley Parent”) and 35% by Citigroup Inc. (“Citi”). On June 28, 2013, Morgan Stanley Parent purchased Citi’s 35% interest in MSSB. Accordingly, MSSB is now a wholly owned indirect subsidiary of Morgan Stanley Parent.

MSSB used to provide investment advisory services through two channels. One channel generally provided the investment advisory programs previously provided by Smith Barney and/or Citigroup Global Markets Inc. (“CGM”) (“SB Channel”) The other channel generally provided the investment advisory programs previously provided by Morgan Stanley & Co. Incorporated (now, Morgan Stanley & Co. LLC) (“MS&Co.”) (“MS Channel”). In 2012, MSSB merged the SB Channel and MS Channel advisory programs. Now that this merger of the SB Channel and the MS Channel is complete, unless you selected an external custodian, all clients’ assets are held in custody at MSSB (except for “sweep” assets, which are held in custody at the Sweep Banks pursuant to the Bank Deposit Program). Please see Item 4.C (Services, Fees and Compensation -- Additional Fees – Cash Sweeps -- Bank Deposit Program) below, for more information.

MSSB offers clients (“you”, “your” and “Client”) many different advisory programs. Many of MSSB’s advisory services are provided by its Consulting Group (“CG”) business unit. You may obtain brochures for other MSSB investment advisory programs at www.morganstanley.com/ADV or by asking your Financial Advisor or your Private Wealth Advisor (for Morgan Stanley Private Wealth Management clients). Throughout the rest of this brochure, “Financial Advisor” means either your Financial Advisor or your Private Wealth Advisor, as applicable.

A. General Description of Programs and Services

CG administers and oversees the Consulting Group Advisor (“CGA”) program as discussed below. This section then discusses various general matters applying to this program. MSSB and its Financial Advisors may also provide other services in connection with this program. Any such services will be specified in the investment advisory agreement between MSSB and you (See “Account Opening” below). In addition, the guidelines to this program are subject to change without notice. You should consult with your Financial Advisor for further details.

Consulting Group Advisor Program

CGA is an investment advisory program designed to assist you in devising and implementing a reasoned, systematic, long-term investment strategy tailored to your financial circumstances. CGA assists clients in evaluating their investment objectives and risk tolerances and enables them to invest in a broad array of Eligible Assets (as defined below). CGA is a non-discretionary investment program in which all investment decisions are made by you, other than the investment of free credit balances and the conversion of mutual fund shares to shares of a different share class as discussed below. Neither MSSB nor any affiliated entity has any investment discretion over your CGA account. The CGA program will consist of the following elements:

The Investment Proposal. MSSB shall assist with the review and evaluation of your investment objectives. In order to develop your overall suitability, MSSB will review and evaluate your financial goals and risk tolerances based on an investment questionnaire (the “Investment Questionnaire”) that the Financial Advisor completes with your assistance to reflect your individual situation. In reviewing your suitability, MSSB may consider assets that are not contained in the CGA account (“Outside Assets”) that you have designated for analysis.

Based on the Investment Questionnaire, MSSB will prepare an investment proposal (the “Proposal”) with investment concepts that are consistent with your investment objectives. The Proposal may provide specific advice about implementing investment decisions through Eligible Assets (as defined below), which cover a spectrum of investments. Available Mutual Funds and fee-based unit investment trusts (“UITs”) may be purchased by you without the imposition of any initial, deferred sales charges or contingent deferred sales charges if the fund or the UIT is an Eligible Asset, as defined below (but will remain subject to the internal expenses described in the applicable prospectus’ expense table). The Mutual Funds may impose short-term redemption fees. You should refer to the applicable prospectus for additional information regarding these fees.

In the event that you notify MSSB of a change in your investment suitability and objectives contained in the Investment Questionnaire or Proposal, MSSB may generate a revised Proposal, and if necessary, suggest rebalancing of the CGA account’s asset allocation in accordance with the updated information.

Investment Services. MSSB shall periodically provide you with investment advice, which may include recommendations regarding investing in available Eligible Assets (as defined below) in a manner consistent with your investment objectives; and pursuant to your consent, which shall be obtained prior to each transaction, in order to accept transactions in the CGA account.

Plan Review. Generally, your Financial Advisor will contact you semi-annually to review your account (“Plan Review”) to help ensure that it remains within appropriate asset allocation parameters.

Eligible Assets and Restrictions. As used in this brochure, “Eligible Assets” consist of assets held in a CGA account that are: (a) domestic equity and certain other securities (other than

securities of Morgan Stanley and Citi (“MS & Citi Securities”)), including, but not limited to, common stock, convertible preferred stock, convertible bonds, shares of closed-end investment companies that may or may not be sponsored or advised by MSSB or its affiliates, American Depository Receipts, and any rights or warrants on equity securities; (b) certain foreign equity securities; (c) options on domestic equity securities or indices; (d) load-waived shares or shares not offered with a load of certain open-end investment companies that may or may not be sponsored or advised by MSSB or its affiliates, as specified from time to time by MSSB; (e) load carrying shares of certain open-end investment companies, as specified from time to time by MSSB, that have been purchased on a load basis outside of the CGA account (such no-load and load investment companies collectively referred to as “Mutual Funds”); (f) certain exchange traded funds (“ETFs”), together with Mutual Funds and closed-end funds, the “Funds”); (g) certain fixed-income securities (including, but not limited to, U.S. Treasury and federal agency securities, corporate bonds, municipal bonds, preferred stock, and mortgage-backed securities) as specified from time to time by MSSB and certificates of deposit; (i) certain fee-based UITs; or (j) cash and cash equivalents (e.g., money market funds and certain short-term fixed income securities) (“Cash Equivalents”).

As used in this brochure, “Ineligible Assets” include, but are not limited to: MS & Citi Securities, insurance, annuities, limited partnership interests or units, precious metals or other commodities or futures thereon, options on futures, currency options, foreign currency, commercial paper, bankers acceptances, and non fee-based UITs, investment company shares and fixed income securities that are not Eligible Assets, as described above.

MSSB will not provide advice with respect to Outside Assets.

MSSB may add or delete classes of securities or assets from the definition of Eligible Assets and Ineligible Assets from time to time, and upon notice to you. In addition, without notice to you, MSSB may treat any Fund or other asset that is in your CGA account as an “Eligible Asset”, in which case such Fund or other asset shall become an Eligible Asset. In addition, without notice to you, MSSB may convert any Fund in a CGA account that is an Ineligible Asset to a share class of the same Fund that is an Eligible Asset.

If a particular Fund or other asset held in your CGA account becomes an Eligible Asset, MSSB will include the Fund or other asset in the Periodic Review (as defined below) and in the CGA account asset value for purposes of calculating your CGA fee, and shall provide the other services specified in the investment advisory agreement with respect to that Fund or other asset. If a Fund or other asset becomes an Eligible Asset during a billing period, the CGA account may be subject to a pro-rata fee based on the number of days remaining in the billing period. Accordingly, any asset in a CGA account may be or become subject to the CGA fee.

General Description of the Program

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

Account Opening

To enroll in the CGA program, you must complete a client profile and an investment questionnaire. To enroll in any program described in this brochure, you must enter into the investment advisory client agreement for that program (“Client Agreement”).

Additions and Withdrawals. You may make additions into the account at any time in the form of cash or program eligible securities, provided that MSSB reserves the right to decline to accept particular securities into the account or to impose a waiting period before certain securities may be deposited. MSSB may accept other types of securities for deposit at MSSB’s discretion. You may withdraw assets from the account upon notice to your Financial Advisor, subject to the usual and customary securities settlement procedures, as set forth in Client Agreement.

Execution Services

The services for your account also include execution services and you will not be charged separate brokerage commissions if you execute through MSSB or its affiliates. Below are some features that we offer in the program described in this brochure.

Principal Transactions. For non-retirement clients with CGA accounts, MSSB and its affiliates may execute trades with respect to transactions executed for a client (e.g., selling a security to, or purchasing a security from the client) while acting as principal for its own account. In addition to the program fee charged by MSSB, MSSB or its affiliates may also benefit from the transaction by receiving a mark-up or mark-down, underwriting fee or selling concession, as well as other incentives to execute transactions directly from the inventory of MSSB or its affiliates. This will result in MSSB or its affiliates realizing customary dealer profits or losses on the trades, and as a result, may present a potential conflict of interest. Any profit or loss on principal trades would be separate from or additional to, and would not reduce or otherwise offset, compensation received by MSSB under the program described in this brochure. Prior to execution of a principal transaction, MSSB will obtain your consent to the transaction including all material terms thereof as required by law. Notwithstanding this conflict of interest, we will, at all times, seek the best execution reasonably available under the circumstances. In addition, we will disclose to you all material terms related to the transaction, to the extent required by law. You may revoke the authorization to effect principal transactions at any time either verbally or in writing by contacting your MSSB branch office manager. Prior to settlement of a principal transaction, in the event you revoke your consent or otherwise object to such transaction, you understand that MSSB may re-execute the transaction on an agency basis. If such transaction cannot be executed on an agency basis, MSSB will cancel the transaction at no additional cost to you.

Limitations on Principal Transactions. The types of securities that may be purchased or sold on a principal basis in your non-retirement account pursuant to the terms of your program agreement may change in the future and could become more limited. There will be no change to the securities that may be traded on an agency basis, pursuant to market availability. Your Financial Advisor can provide additional details.

Agency Cross Transactions. MSSB has the authority to effect “agency cross” transactions (i.e., transactions for which we, or one of our affiliates act, as broker for both the account and the counterparty to the transaction) for the account when so permitted by applicable law. We, or one of our affiliates, may receive compensation from the other party to such transaction, and thus, we may have a potentially conflicting division of loyalties and responsibilities. You may revoke the authorization to effect agency cross transactions at any time by providing MSSB with written notice as specified in the Client Agreement.

Time and Price Discretion. For the program described in this brochure, MSSB and/or its affiliates can exercise limited discretion as to the price or time at which they can execute an order for a transaction in an account (“time and price discretion”), so long as such discretion is exercised on the same day that the order is given and is consistent with its duty to seek the best execution reasonably available under the circumstances. In addition, MSSB or its affiliates may aggregate orders for the sale or purchase of securities in such accounts with orders for the same security for MSSB’s and or its affiliates’ other clients (other than accounts of its employees or related persons) without prior authorization, if the transaction is affected on the same day in which the order is received, and is in accordance with law and with the obligation to seek the best execution reasonably available under the circumstances. In such cases, generally, each affected account in the aggregated transaction will be charged with the average price per share or unit and, when applicable, it’s pro rata share of any fees.

Trade Confirmations, Account Statements and Performance Reviews

Unless you have appointed another custodian in a program where you may do so, MSSB is the custodian and provides you with written confirmation of securities transactions, and account statements at least quarterly. You may also receive mutual fund and UIT prospectuses, where appropriate.

We provide Investment Monitors to you periodically. These periodic reviews (“Periodic Reviews”) are monitoring reports and contain an analysis and evaluation of the CGA accounts. They are provided to assist you in ascertaining whether the objectives for your account are being met and recommending, when appropriate, changes in the allocation of assets among investment types.

These reports have tabular reports and graphical displays showing how your account investments have performed, both on an absolute basis and on a relative basis compared to recognized indices (such as Standard & Poor’s indices). You may access these reports through MSSB’s online account services site. To enroll your account in the online account service site, go to <https://www.morganstanleyclientserv.com/FreeContent/Enrollm>

ents/Identification.aspx and follow the step-by-step instructions. If, however, you would like to receive these reports by mail, please call 1-888-454-3965.

Consulting Group Trust Services

The programs described in this brochure may offer fully integrated wealth management solutions, which may include trusts. MSSB does not accept nor will it act as a trustee (an MSSB affiliate, such as Morgan Stanley Private Bank, National Association, may be serving as trustee for existing accounts and is closed to new accounts). In order to offer to you complete solutions, MSSB has created the Consulting Group Trust Services Program (“CG Trust Services”) with external trust companies (including external banks which may serve as a corporate trustee) to provide trustee services for the assets in your account while you receive investment advisory services from MSSB.

To receive trustee services through CG Trust Services, you and your attorney will create separate agreements with an external trust company to govern the trust and you will appoint a trustee to act on your behalf; in certain situations, you may appoint separate administration and investment trustees. You or your designees will sign these separate agreements and may pay a separate fee to your attorney. External trust companies and MSSB typically charge separate fees to CG Trust Services client accounts for their respective services, which may be higher than fees charged to clients outside of the CG Trust Services Program for comparable services. In certain limited circumstances, MSSB will compensate an external trust company for the services it provides to a client account. Neither MSSB nor your Financial Advisor will be paid by the external trust company. In certain circumstances, MSSB or an affiliate may pay compensation to or receive an indirect economic benefit from an unrelated third party (see: “Client Referrals and Other Compensation”, Item 9 below).

As part of CG Trust Services, you or your selected trustee, with investment authority, may delegate investment discretion directly to MSSB or receive non-discretionary investment advisory services through the programs offered by Consulting Group. Additionally, certain external trust companies have contractually agreed to attempt to use the services (including MSSB custody services) described in this brochure for each CG Trust Services client (and in some cases, former CG Trust Services clients), unless the client has issued contrary instructions, and so long as such use of MSSB services will not cause the external trust company to violate any duty or obligation. Consequently, regardless of the external trust company you select, unless you have appointed another custodian, you can hold your assets in custody at MSSB through CG Trust Services. Accounts outside of CG Trust Services may be subject to different custody arrangements. MSSB has made arrangements to have a number of external trust companies participate in CG Trust Services, as described above. While these arrangements are designed to enhance the administrative and operational experience of clients who appoint such an external trust company and MSSB to service the same assets, these arrangements could pose a conflict of interest for MSSB and its representatives by creating an incentive for them to introduce their clients to those external trust companies who

have such arrangements with CG Trust Services over other external trust companies.

The decision to participate in CG Trust Services and the selection of the trustee and attorney are your decision and responsibility. MSSB and its affiliates do not provide tax and legal advice (see: "Tax and Legal Considerations", Item 4(A) below). For additional information and to determine eligibility, please contact your Financial Advisor.

Other Features

Mutual Funds. MSSB offers a variety of mutual funds and generally reviews and considers a number of factors, including but not limited to the number and variety of funds offered; length of track record and historic appeal to MSSB clients and Financial Advisors; short- and long-term performance of the funds offered; size of assets under management; ability to support Financial Advisors and clients through training, education and sales literature; and level of interest and demand among clients and Financial Advisors.

Cash Management Services. As a client of MSSB, you may be able to select certain cash management services such as margin loans, ATM/Debit Cards and checkwriting which may be offered by MSSB or its affiliates. These optional services provided to interested clients are subject to separate agreements and have different eligibility requirements. For further information on any of these services, please refer to your account opening materials or contact your Financial Advisor.

Checkwriting and ATM/Debit Cards. The program described in this brochure offers checkwriting and ATM/Debit card services. You may be able to obtain more information about these features and the fees associated with their use in your account opening materials and in the annual MSSB FYI mailing.

Margin Loans. Margin loans are offered to eligible CGA clients. These margin loans enable clients to borrow money from MSSB against the value of qualifying securities in a CGA account to purchase securities. The securities in the CGA account serve as collateral for the margin loan. For additional details, please refer to the Welcome Book and the Margin Disclosure Statement provided as well in your account opening materials.

Risks

All trading in an account is at your own risk. The value of the assets held in an account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. Investment performance of any kind is not guaranteed, and MSSB's or a Financial Advisor's past performance with respect to other accounts does not predict future performance with respect to any particular account. In addition, certain investment strategies that Financial Advisors may use in the CGA program have specific risks, including those associated with investments in common stock, fixed income securities, American Depositary Receipts, and Funds. You should consult with your Financial Advisor regarding the specific risks associated with the investments in your account.

Risk Relating to ETFs. There may be a lack of liquidity in certain ETFs which can lead to a large difference between the

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

Risks Relating to Money Market Funds. An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, there is no assurance that will occur, and it is possible to lose money if the fund value per share falls. Moreover, in some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings are liquidated and distributed to the fund's shareholders. This liquidation process could take up to one month or more. 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 Unit Investment Trusts. UITs invest in underlying securities pursuant to their investment objective and strategy. While a UIT's underlying portfolio is supervised, it is not actively managed and will hold, and may, when creating additional units, continue to buy, portfolio securities even if their outlook, market value or yields may have changed.

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 and Legal Considerations

A Financial Advisor may agree with you to implement an investment strategy that you developed and that you believe is sensitive to your particular tax situation. You need to develop any such strategy in consultation with a qualified tax adviser. Certain tax-sensitive strategies can involve risks. Among others, tax-efficient management services involve an increased risk of loss because your account may not receive the benefit (e.g., realized profit, avoided loss) of securities transactions that would otherwise take place in accordance with the Financial Advisor's investment management decisions for the account.

Consult your independent tax or legal advisor with respect to the services described in this brochure, as MSSB and its affiliates do not provide tax or legal advice.

Fees

Maximum Fees. The maximum annual fee for the program described in this brochure is 2.00% of the market value of the account.

Fees are Negotiable. Fees for the program 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 the Financial Advisor. In special circumstances, and with your agreement, the fee charged to you for an account may be more than the maximum annual fee stated in this section.

When Fees are Payable. The fee is payable as described in the Client Agreement. Generally, the initial fee is due in full on the date you open your account at MSSB and is based on the net market value of the Eligible Assts in the CGA 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 net market value of the Eligible Assts in the CGA account on the last business day of the previous calendar quarter and is due the following business day.

You may terminate participation in the program described in this brochure at any time by giving written or verbal notice to MSSB. If participation in the program described in this brochure is terminated, any advisory fees paid in advance will be refunded on a pro-rata basis.

The Client Agreement authorizes MSSB to deduct fees when due from the assets contained in the account. Interest will be charged to your account should the account show a debit balance.

MSSB does not pay any fees to portfolio managers for accounts.

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

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 your Financial Advisor.

The program described in this brochure is generally not aggregated with any other program account (including other accounts in the same program held by you) for purposes of calculating whether you meet any breakpoint thresholds unless specifically agreed between you and the Financial Advisor.

ERISA Fee Disclosure for Qualified Retirement Plans. In accordance with new Department of Labor regulations under Section 408(b)(2) of ERISA, effective July 1, 2012, MSSB is required to provide certain information regarding our services and compensation to assist fiduciaries and plan sponsors of those retirement plans that are subject to the requirements of ERISA in assessing the reasonableness of their plan’s contracts or arrangements with us, including the reasonableness of our compensation. This information (the services we provide as well as the fees) is provided to you at the outset of your relationship with us and is set forth in your advisory contract with us (including the Fee table, other exhibits and, as applicable, this document), and then at least annually to the extent that there are changes to any investment-related disclosures for services provided as a fiduciary under ERISA.

Other. Because the program described in this brochure does not involve third party investment managers, subject to referral payments as described below (see “Client Referrals and Other Compensation” in Item 9), we and our Financial Advisor retain the entire fee.

B. Comparing Costs

The primary service that you are purchasing in the program described in this brochure is your Financial Advisor providing advice to help you evaluate your investment objectives and risk tolerance and enable you to invest in a broad range of eligible assets. Cost comparisons are difficult because this particular type of service is not offered in other CG programs. Depending on the level of trading and types of securities purchased or sold in your account, if purchased separately, you may be able to obtain transaction execution at a higher or lower cost at MSSB or elsewhere than the fee in this program. However, such transactions may not be executed on a non-discretionary basis in other types of CG programs.

Commissions from trading on a non-discretionary basis in a brokerage account may be higher or lower than the fees you pay depending on the level of trading. Clients who have a low level of trading and do not require investment advisory services may be able to obtain transaction execution at a lower cost in a brokerage account.

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

C. Additional Fees

If you open an account in the CGA program described in this brochure, you will pay us an asset-based fee for investment advisory services, custody of securities and trade execution with or through MSSB. The program fees do not cover:

- the costs of investment management fees and other expenses charged by Funds and UITs (see below for more details)
- “mark-ups,” “mark-downs,” and dealer spreads (A) that MSSB or its affiliates may receive when acting as principal in certain transactions where permitted by law or (B) that other broker-dealers may receive when acting as principal in certain transactions effected through MSSB and/or its affiliates acting as agent, which is typically the case for dealer market transactions (e.g., fixed income and over-the-counter equity)
- brokerage commissions or other charges resulting from transactions not effected through MSSB or its affiliates
- MSSB account establishment or maintenance fees for its Individual Retirement Accounts (“IRA”) and Versatile Investment Plans (“VIP”), which are described in the respective IRA and VIP account and fee documentation (which may change from time to time)
- account closing/transfer costs
- processing fees
- certain other costs or charges that may be imposed by third parties (including, among other things, odd-lot differentials, transfer taxes, foreign custody fees, exchange fees, supplemental transaction fees, regulatory fees and other fees or taxes that may be imposed pursuant to law) or
- any fee which a trust company affiliated with MSSB charges for its services (if applicable) as custodian and trustee for the assets in the program described in this brochure, pursuant to a separate agreement between you and the trust company.

Funds and UITs in Advisory Programs

Investing in Funds and UITs is more expensive than other investment options offered in your advisory account. In addition to our fee, you pay the fees and expenses of the Funds and UITs in which your account is invested. Fund and UIT fees and expenses are charged directly to the pool of assets the Fund or UIT invests in and are reflected in the 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 UIT expense ratio (the total amount of fees and expenses charged by the Fund or UIT) is stated in its prospectus. The expense ratio generally reflects the costs incurred by shareholders during the Mutual Fund’s or UIT’s most recent fiscal reporting period. Current and future expenses may differ from those stated in the prospectus.

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

MSSB receives payments from mutual fund companies whose open-end mutual funds (“Mutual Funds”) are offered through the CGA program, of up to 0.16% of the assets of such Mutual Funds that are held by MSSB clients. As described in greater detail below, the participation fee is paid by fund companies primarily to compensate us for providing services that the fund company would otherwise have to provide itself. However, a portion of the participation fee may be considered as “revenue sharing.” These payments are separate from, and do not impact, the fee that clients pay to us. They are paid directly from the mutual fund or its advisor or distributor to MSSB. Moreover, MSSB Financial Advisors do not receive any additional compensation as a result of these payments.

A substantial portion of the participation fee compensates us for services that we perform on behalf of the fund sponsor or company. These services are generally sub-accounting and recordkeeping functions such as aggregating and processing purchases, redemptions and exchanges of fund shares; delivery of disclosure documents; processing of dividend distributions; tax reporting and other shareholder or administrative services.

MSSB considers the portion of the fee that exceeds the amount that the fund company would otherwise charge internally for such services to be revenue sharing. Revenue-sharing payments are generally paid out of the fund’s investment advisor’s or other affiliate’s revenues or profits and are not made from fund assets. However, fund affiliate revenues or profits may be in part derived from fees earned for services provided to and paid for by the fund. No portion of these revenue-sharing payments are made by means of brokerage commissions generated by the fund.

As a general matter, MSSB requires mutual fund companies to pay the participation fee to enable the fund company’s funds to be made available through our advisory programs. There are limited exceptions in which fund companies pay us a participation fee of less than 0.16%. These exceptions create a potential conflict of interest in that MSSB could have an incentive to recommend a mutual fund from a family that pays the full participation fee. As noted above, Financial Advisors do not share in this fee and these payments do not increase the fees that clients pay to us.

Notwithstanding the foregoing, MSSB does not receive such payments in relation to those clients that are qualified employee benefit plans, as defined under ERISA, individual retirement accounts (“IRAs”) described in Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”) or a plan or other arrangement subject to fiduciary and prohibited transaction requirements of substantially similar state, local or foreign law (each, a “Retirement Plan”). This creates the potential for a conflict of interest because we may earn more revenue if we recommend a particular Mutual Fund as opposed to a different Mutual Fund or other Investment Product. Please note that our policy is that we do not ask our Financial Advisors to take this

factor into account when recommending Mutual Funds. Moreover, Financial Advisors do not share in the payments from mutual fund companies, so there is no direct incentive for them to recommend one mutual fund company over another based on the amount of payments that MSSB receives.

Mutual fund companies that do not agree to make these payments do not receive the same level of access to our firm.

In addition to the program fee paid by you, MSSB and its affiliates may also receive investment management fees and related administrative fees from affiliated Mutual Funds where the Mutual Funds' investment adviser is a MSSB affiliate.

In addition to the program fee paid by you, MSSB may receive additional amounts from each UIT sponsor or their affiliates for providing the sponsors with access to Financial Advisors in our branch offices, for including the sponsor's products on MSSB's platforms and for providing ongoing services in support of the UIT business. The UIT sponsors pay MSSB a flat dollar amount, not based on UIT sales or assets in a client's brokerage or advisory accounts. Thus, we have a conflict to recommend UITs over individual securities, closed-end funds or ETFs. Your Financial Advisor does not receive any of the additional payments. The amounts payable to MSSB pursuant to these arrangements can change at any time. A portion of these fees may represent revenue sharing. For more information about these payments, see the disclosure entitled "Unit Investment Trusts - Features, Costs and Compensation" at <http://www.morganstanleyindividual.com/investmentproducts/unittrusts/BillofRights/>.

For more information, please refer to the document "Mutual Fund Share Classes and Compensation", at http://www2.morganstanley.com/wealth/investmentsolutions/pdfs/MF_share_classes.pdf and also available from your Financial Advisor on request. Certain Funds are sponsored or managed by affiliates of MSSB. Since the affiliated sponsor or manager receives additional investment management fees and other fees, MSSB has a conflict to recommend MSSB affiliated Funds.

Mutual Fund companies typically offer different ways to buy Mutual Fund shares. Some Mutual Funds only offer one share class for a particular fund while some funds offer many types of share classes. In addition to the more broadly known retail share classes (A, B and C shares), fund companies have developed additional types of specialized share classes designed for specific advisory programs. If available, clients' shares are converted into the share class required by the Mutual Fund for that type of account. Depending on the circumstances, clients' shares are converted into a share class that has a lower or a higher expense ratio. Advisory share classes usually have a lower expense ratio than the share classes that MSSB previously offered in the program. However, we may continue to offer non-advisory share classes if, for example, there is no equivalent advisory share class available or we believe that the non-advisory share class is likely to be the most cost effective share class. Once we make an advisory share class available for a particular Mutual Fund, clients can only buy the advisory class

shares (not the non-advisory class shares) of that Mutual Fund in the program.

If available, we (without notice to you) will convert any Mutual Fund in your account to a share class of the same Mutual Fund which is a load-waived or no-load share class such as an Institutional ("I") share or advisory program share. On termination of your account, or the transfer of Mutual Fund shares out of your advisory account into a MSSB brokerage account, we will convert any I shares and/or advisory shares to the corresponding non-advisory share class. The non-advisory Mutual Fund share class generally has higher operating expenses than the corresponding I and advisory share classes, which may negatively impact investment performance.

Cash Sweeps

Generally, some portion of your account will be held in cash. If MSSB 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 Management Inc. or another MSSB affiliate.

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

Clients that are considered Retirement Plans or are 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. 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 the Securities Investor Protection Corporation ("SIPC") or excess coverage.

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

Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which will be provided to you upon your first investment in the Bank Deposit Program. You may also obtain the Bank Deposit Program Disclosure Statement as well as current interest rates applicable to your account, by contacting your Financial Advisor or through MSSB's website at www.morganstanley.com/wealth/services/bankdepositprogram.asp. 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 and its affiliates are not responsible for any insured or uninsured portion of your deposits at any of the Sweep Banks.

If BDP is your Sweep Investment, you should be aware that, each Sweep Bank will pay MSSB a fee equal to the percentage of the average daily deposit balances in your Deposit Account at the Sweep Banks. Your Financial Advisor will not receive a portion of these fees or credits. In addition, MSSB will not receive cash compensation or credits in connection with the BDP for assets in the Deposit Accounts for Retirement Plans or Coverdell Education Savings accounts. Also, the affiliated Sweep Banks have the opportunity to earn income on the BDP assets through lending activity, and that income is usually significantly greater than the fees MSSB earns on affiliated Money Market Funds. Thus, MSSB has a conflict of interest in selecting or recommending BDP as the Sweep Investment, 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 are affiliated with MSSB. You understand that purchases and redemptions of Money Market Fund shares may be effected only through MSSB and that you may not directly access the Money Market Fund.

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

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

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

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

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

Since the Money Market Funds are sponsored or managed by MSSB affiliates, those MSSB affiliates receive advisory fees and may receive other fees from the Money Market Funds if your account cash balances are invested in the Money Market Funds. Therefore, MSSB has a conflict of interest in selecting or recommending the Money Market Funds as your Sweep Investment. For Retirement Plans with cash balances invested in Money Market Funds sponsored or managed by MSSB affiliates, certain fees received and retained by such MSSB affiliates will be credited to the account or offset against the advisory program fee. Please see the attached Exhibit "Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement" for more details.

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

D. Compensation to Financial Advisors

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

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

Item 5: Account Requirements and Types of Clients

Generally, the CGA program requires you to have a minimum of \$25,000 in Eligible Assets in MSSB investment advisory accounts for members of the same household as you.

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

Item 6: Portfolio Manager Selection and Evaluation

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

As CGA is a non-discretionary advisory program where the client retains authority to make investment decisions, MSSB does not review, select or recommend portfolio managers.

B. Conflicts of Interest

Conflicts of Interest – Financial Advisor Acting as Portfolio Manager

In the program described in this brochure, no affiliates, related persons or supervised persons of MSSB act as portfolio manager.

Other Conflicts of Interest

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

Advisory vs. Brokerage Accounts. MSSB and your Financial Advisor are likely to earn more compensation if you invest in a program described in this brochure than if you open a brokerage account to buy individual securities (although, in a brokerage account, you would not receive all the benefits of the program described in the brochure). Financial Advisors and MSSB therefore have a financial incentive to recommend one of the program described in this brochure. We address this conflict of interest by disclosing it to you and by requiring Financial Advisors' supervisors to review your account at account-opening

to ensure that it is suitable for you in light of matters such as your investment objectives and financial circumstances.

Payments from Managers. Managers participating in MSSB-sponsored internal training and education conferences and meetings may make payments to, or for the benefit of, MSSB or its Financial Advisors to offset the expenses incurred for these events. On request, your Financial Advisor can provide you with a schedule of these payments.

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

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

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

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

Different Advice. MSSB, MS&Co. 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. 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. and their affiliates and employees may hold a position (long or short) in the same securities held in client accounts. MSSB, MS&Co. and/or their affiliates are regular issuers of traded financial instruments linked to securities that may be purchased in client accounts. From time to time, MSSB (or an affiliate's) trading – both for 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.

Principal Transaction (for non-retirement clients). If you consent to MSSB effecting transactions on your behalf while acting as principal for our own accounts to the extent permitted by law, in addition to the asset-based fee charged by us, we may also benefit from the transaction by receiving a mark-up or mark-down, underwriting fee or selling concession, as well as other incentives to execute transactions directly from our inventories. This will result in us realizing dealer or other profits or losses on the trades, and, as a result, may present a potential conflict of interest.

Recommendations from your Financial Advisor based on Trading Desks (for non-retirement clients). In the CGA program, your Financial Advisor will periodically provide you with investment advice, which may include recommendations to invest in available Eligible Assets. These Financial Advisor recommendations could be based on information and ideas from various sources and may include ideas generated by trading desks at MSSB or its affiliates.

Some of these trade ideas might involve securities or instruments in which MSSB or an affiliate has a financial interest or result in principal transactions which would involve purchasing from or selling to the inventory of MSSB or its affiliates and as a result, may present a potential conflict of interest. The trading desks may deal as principal in or own or act as market maker or liquidity provider for securities or instruments (or related derivatives). The trading desks may also engage in a variety of trading activities (which may conflict with the position an investor may have) before or after providing this information, including accumulation of a position in any securities or instruments. Trading desk ideas are not independent of the financial interests of MSSB or its affiliates which may conflict with your interests. Affiliates of MSSB may also perform or seek to perform investment banking services for the issuers of the securities and instruments. All of these trading desk activities may pose potential conflicts of interest. See Items 4.A and 6.B above for more information on Principal Transaction.

Pricing of Securities in Principal Transactions (for non-retirement clients). MSSB and its affiliates price the positions in their securities based on trading in the same or comparable securities in both the primary and secondary markets. When MSSB effects a principal transaction for you, with your consent, we will, at all times, seek the best execution reasonably available under the circumstances. See Items 4.A and 6.B above for more information on Principal Transaction.

Allocation of Investment Opportunities; Initial Public & Other Offerings. MSSB allocates investment opportunities among accounts in a manner MSSB determines appropriate. MSSB may make allocations based on factors that may change or may be given different weight depending on the circumstances. These factors include among others timing of a client's interest in an investment; relative size of client accounts (and expected future size); the nature, significance, profitability of, and revenues attributable to, a client relationship; client investment objectives, guidelines, financial circumstances, and risk tolerances; the availability of the investments and other alternatives; available cash for investment; and applicable legal requirements. Additional factors may be considered in allocations of initial public offerings and secondary offerings, and these factors generally favor brokerage customers and advisory clients who generate the most revenues for MSSB, most consistently participate in such offerings and are served by Financial Advisors themselves who generate the most revenues for MSSB. Given the limited availability of some offerings, most brokerage customers and advisory clients will not have an opportunity to invest in offerings (or, if they do, they generally will receive smaller allocations than they requested). When Financial Advisors receive an allocation that is not designated for a specific client, they may choose to offer participation to only a small group of suitable brokerage customers, advisory clients or neither, based on the factors described above.

Services Provided to Other Clients. MSSB, MS&Co. 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 program described in this brochure. MSSB, MS&Co. 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 MSSB, MS&Co. 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 managers are not permitted to initiate or recommend certain types of transactions in the securities of issuers for which MS&Co. or one of its affiliates is performing broker-dealer or investment banking services or has 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 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 their 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 they believe would violate federal or state law, or the regulations of any regulatory or self-regulatory body.

Options Flow Preferencing. When MSSB processes an options transaction for your account, our affiliate MS&Co. may be given preference as to the execution of such transaction. MS&Co. will only be given such preference if the prices at which it can execute the transaction are equal to or lower than the best price quoted on the relevant exchange. Because of this preference, MS&Co. can generate larger trading volumes and compensation. Both MSSB and MS&Co. continue to have an obligation to obtain best price and execution terms for client transactions under prevailing circumstances and consistent with applicable law.

Research Reports. MS&Co. does business with companies covered by their respective research groups. Furthermore, MS&Co., and its affiliates and client accounts may hold a trading position (long or short) in the securities of companies subject to such research. Therefore, MS&Co. has a conflict of interest that could affect the objectivity of its research reports.

Certain Trading Systems. MSSB may effect trades on behalf of client accounts through exchanges, electronic communication networks or other alternative trading systems ("Trading Systems"), including Trading Systems in which MSSB or its affiliates may have a direct or indirect ownership interest, or on which MSSB or its affiliates may have a board seat. In certain instances, MSSB and/or its affiliates may be deemed to control one or more of such Trading Systems based on the level of such ownership interest, and whether MSSB or its affiliates are represented on the board of such Trading Systems. If MSSB directly or indirectly effects client trades through Trading Systems in which MSSB or its affiliates have an ownership interest, MSSB or its affiliates may receive an indirect economic benefit based on their ownership interest. In addition, subject at all times to its obligations to obtain best execution for its customers' orders, it is contemplated that MSSB will route certain customer order flow to its affiliates. Currently, MSSB and/or its affiliates (including affiliates of MS&Co.) 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"); MTS Portugal; iSWAP; ; The MuniCenter; Boston Options Exchange, LLC; Chi-X Global Holdings LLC; the entity that owns and controls Pure Trading (Canadian National Stock Exchange, or "CNSX"); NYSE Life US; OTC DerivNet; TradeWeb; and MARKIT. The Trading Systems on which MSSB trades for client accounts and in which MSSB or its affiliates own interests may change from time to time. You may contact your Financial Advisor for an up-to-date list of Trading Systems in which MSSB or its affiliates 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 and/or MS&Co. 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. Some of these agreements, including the following, remain in effect even though MSSB is now a wholly owned subsidiary of Morgan Stanley Parent:

- **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.
- **Affiliated Sweep Investments.** *MSSB has a conflict of interest in selecting or recommending BDP or Money Market Funds as the Sweep Investment.* See Item 4.C above for more information

C. Financial Advisors acting as Portfolio Managers

Description of Advisory Services

In the program described in this brochure, no affiliates, related persons or supervised persons of MSSB act as portfolio manager.

Policies and Procedures Relating to Voting Client Securities

In CGA accounts, we offer proxy voting services to our client.

Electing Who Votes Proxies. If you have a CGA account, you may elect to:

- retain the authority and responsibility to vote proxies for your account;
- delegate discretion to vote proxies to a third party (other than MSSB) or
- if your account assets are held in custody with MSSB, authorize us to vote proxies for such securities and receive related materials.

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

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

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

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

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

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

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

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

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

You may obtain from your Financial Advisor, on request:

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

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

Item 7: Client Information Provided to Portfolio Managers

The program described in this brochure does not use portfolio managers.

Item 8: Client Contact with Portfolio Managers

The program described in this brochure does not use portfolio managers. However, you may contact your Financial Advisor 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, Salomon Smith Barney (“SSB”), now known as CGM, settled civil and regulatory actions brought by the SEC, the NYSE, the NASD, the Attorney General of the State of New York (“NYAG”), and state securities regulators, which alleged violations of certain federal and state securities laws and regulations, and certain NASD and NYSE rules, by SSB arising out of certain business practices concerning sell-side research during 1999 to 2001, and initial public offerings (“IPOs”) during 1996 to 2000. The actions alleged, among other things, that SSB published fraudulent research reports, permitted inappropriate influence by investment bankers over research analysts, and failed to adequately supervise the employees who engaged in those practices. It was also alleged that SSB engaged in improper “spinning” of shares to executives of investment banking clients and failed to maintain policies and procedures reasonably designed to prevent the potential misuse of material non-public information in certain circumstances. Without admitting or denying the findings, SSB consented to (1) censures by NASD and the NYSE; (2) cease and desist orders in state proceedings prohibiting SSB from violating certain state laws and regulations; (3) a judgment prohibiting SSB from violating certain laws and regulations; (4) certain operational reforms; (5) participating in a voluntary initiative pursuant to which SSB will no longer make allocations of securities in hot IPOs to accounts of executive officers or directors of U.S. public companies; and (6) a payment of \$400 million.
 - The SEC alleged disclosure violations in connection with marketing arrangements between MSDW and certain mutual fund complexes in connection with the offer and sale of class B shares in certain Morgan Stanley proprietary mutual funds in the amount of \$100,000 or more in a single transaction.
- The SEC also alleged that receipt of directed brokerage commissions as payment for such marketing arrangements contravened NASD Rule 2830(k). On November 17, 2003, without admitting or denying the findings, MSDW consented to orders including a censure; a cease and desist; and an undertaking to distribute, for the benefit of certain customers, \$50 million dollars, consisting of disgorgement plus prejudgment interest in the amount of \$25 million and civil penalty of \$25 million. MSDW also made certain other undertakings including (1) preparing and distributing certain disclosures and a mutual fund bill of rights; (2) permitting certain class B shares to be converted to class A shares; and (3) retaining an independent consultant to review, among other things, the completeness of the disclosures and conformity with other aspects of the order.
- In 2004, the NYSE brought an administrative action alleging that MS&Co. and MSDW (1) failed to ensure delivery of prospectuses in connection with certain sales of securities; (2) failed to timely and accurately file daily program trade reports; (3) erroneously executed certain sell orders on a minus tick for securities in which MS&Co. held a short position; (4) failed to timely submit RE-3 in connection with certain matters; (5) hired certain individuals subject to statutory disqualification and failed to file fingerprint cards for certain non-registered employees; (6) failed to comply with requirements concerning certain market-on-close and limit-on-close orders; and (7) failed to reasonably supervise certain activities. MS&Co. and MSDW resolved the action on January 7, 2005, by consenting, without admitting or denying guilt, to a censure, a fine of \$13 million, and a rescission offer to those clients who should have received a prospectus during the period from June 2003 to September 2004.
 - In January 2005, the SEC filed a complaint in federal court alleging that, during 1999 and 2000, MS&Co. violated Regulation M by attempting to induce certain customers who received allocations of IPOs to place purchase orders for additional shares in the aftermarket. The SEC did not allege fraud or impact on the market. On January 25, 2005, MS&Co. agreed to the entry of a judgment enjoining MS&Co. from future violations and the payment of a \$40 million civil penalty. The settlement terms received court approval on February 4, 2005.
 - In March 2005, the SEC entered an administrative and cease and desist order against CGM for two disclosure failures by CGM in offering and selling mutual fund shares. Firstly, CGM received from mutual fund advisers and distributors revenue sharing payments, in exchange for which CGM granted mutual funds preferential sales treatment. The order found that CGM did not adequately disclose its revenue sharing program to its clients, in violation of the Securities Act of 1933 (“Securities Act”) and Rule 10b-10 under the Securities Exchange Act of 1934 (“Exchange Act”). Secondly, on sales of Class B mutual fund shares in amounts aggregating \$50,000 or more, the order found that CGM, in violation of the Securities Act, failed to disclose adequately at the point of sale that such shares were subject to higher annual fees. These fees could have a negative impact on client investment returns, depending on the amount invested

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

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

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

establish wrongdoing or liability for purposes of any other proceeding.

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

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

- In a LAWEC dated August 1, 2005, the NASD found that MSDW failed to establish and maintain a supervisory system, including written procedures, reasonably designed to review and monitor MSDW's fee-based brokerage business, between January 2001 and December 2003. Without admitting or denying the allegations, MSDW consented to the described sanctions and findings and was censured and fined \$1.5 million, and agreed to the payment of restitution to 3,549 customers in the total amount of approximately \$4.7 million, plus interest.
- The SEC alleged that MS&Co. violated the Exchange Act by inadvertently failing to timely produce emails to the SEC staff pursuant to subpoenas in the SEC's investigation into MS&Co.'s practices in allocating shares of stock in IPOs and an investigation into conflicts of interest between MS&Co.'s research and investment banking practices. Without admitting or denying the allegations, MS&Co. consented to a final judgment on May 12, 2006 in which it was permanently restrained and enjoined from violating the Exchange Act. MS&Co. agreed to make payments aggregating \$15 million, which amount was reduced by \$5 million contemporaneously paid by MS&Co. to the NASD and the NYSE in related proceedings. MS&Co. also agreed to notify the SEC, the NASD and the NYSE that it has adopted and implemented policies and procedures reasonably designed to ensure compliance with the Exchange Act. MS&Co. also agreed to provide annual training to its employees responsible for preserving or producing electronic communications and agreed to retain an independent 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 LAWG with FINRA. FINRA found that, from 1998 through 2003, MSDW failed to reasonably supervise the activities of two Financial Advisors in one of its branches. FINRA found that these Financial Advisors solicited brokerage and investment advisory business from retirees and potential retirees of certain large companies by promoting unrealistic investment returns and failing to disclose material information. FINRA also held that MS&Co. failed to ensure that the securities and

accounts recommended for the retirees were properly reviewed for appropriate risk disclosure, suitability and other concerns. MS&Co. consented, without admitting or denying the findings, to a censure, a fine of \$3 million, and restitution of approximately \$2.4 million plus interest to 90 former clients of the Financial Advisors.

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

Other Financial Industry Activities and Affiliations

Morgan Stanley Parent is a financial holding company under the Bank Holding Company Act of 1956. Morgan Stanley Parent is a corporation whose shares are publicly held and traded on the New York Stock Exchange. Prior to June 28, 2013 MSSB was owned by a joint venture company which was indirectly owned 65% by Morgan Stanley Parent and 35% by Citi. On June 28, 2013 Morgan Stanley Parent purchased Citi's 35% interest in MSSB. Accordingly, MSSB is now a wholly owned indirect subsidiary of Morgan Stanley Parent.

Activities of Morgan Stanley Parent. Morgan Stanley Parent is a global firm engaging, through its 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. and its affiliates, the following restrictions apply when executing client trades:

- MSSB and MS&Co. 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 and its 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. or their affiliates.

These restrictions may adversely impact client account performance.

See Item 6.B above for conflicts arising from our affiliation with MS&Co. and its affiliates.

Related Investment Advisors and Other Service Providers. MSSB has related persons that are the investment advisers to mutual funds in various investment advisory programs (including Morgan Stanley Investment Management Inc., Morgan Stanley Investment Advisors Inc. and Morgan Stanley Investment Management Limited and Consulting Group Advisory Services LLC). If you invest your assets in an affiliated mutual fund, MSSB and its affiliates earn more money than if you invest in an unaffiliated mutual fund. Generally, for Retirement Plans, MSSB rebates or offsets fees so that MSSB complies with IRS and Department of Labor rules and regulations.

Morgan Stanley Investment Management Advisors Inc., and 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 Distribution Inc. serves as distributor for these open-end investment companies, and has entered into selected dealer agreements with MSSB and affiliates. Morgan Stanley Distribution 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 Services Company Inc., an affiliate of MSSB, serves as transfer agent and dividend disbursing agent for investment companies advised by Morgan Stanley Investment Management Inc. and other affiliated investment advisers and may receive annual per shareholder account fees from or with respect to them and certain unaffiliated investment companies.

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

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

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

Code of Ethics

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

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

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

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

See Item 6.B above.

Reviewing Accounts

At account opening, your Financial Advisor and his or her Branch Manager (or the Branch Manager’s designee) confirm that the account and the investment style are suitable investments for you.

In the CGA program, generally, your Financial Advisor will contact you semi-annually to review your account (See “Plan Review” in Item 4A. above).

See Item 4.A above for a discussion of account statements and Investment Monitors.

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

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

We do not have any financial conditions that are reasonably likely to impair our ability to meet our contractual commitments to clients.

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

Exhibit: Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement

Sweep Vehicles in Retirement Accounts and CESAs

Since the dates below (“Effective Dates”), the following “Retirement Plan Accounts” (IRAs, Employee Benefit Trusts (“EBTs”), Retirement Plan Manager (“RPM” accounts) and Versatile Investment Program (“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 (although SB Channel Retirement Plan Accounts did not begin using BDP as the Sweep Investment until MSSB merged its SB Channel and MS Channel in 2012):

:

- 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 (although SB Channel Retirement Plan Accounts did not begin using these Morgan Stanley money market funds as the Sweep Investment until some time after the Effective Date) :

- 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.

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 that term is defined under ERISA or the 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 13, 2013, 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	0.24%	0.10%	0.08%	0.42%	0.23%
Active Assets Government Securities Trust	0.45%	0.10%	0.15%	0.70%	0.11%
Active Assets Institutional Government Securities Trust	0.10%	None	0.07%	0.17%	0.11%
Active Assets Institutional Money Trust	0.10%	None	0.07%	0.17%	0.16%
Morgan Stanley Liquid Asset Fund Inc.	0.24%	0.10%	0.13%	0.47%	0.25%
Morgan Stanley U.S. Government Money Market Trust	0.36%	0.10%	0.10%	0.56%	0.09%