

# **Form ADV Wrap Fee Program Brochure Morgan Stanley Smith Barney LLC**

Select UMA ® Program

**July 26, 2013**

2000 Westchester Avenue  
Purchase, NY 10577  
Tel: (914) 225-1000

[www.morganstanleyclientserv.com](http://www.morganstanleyclientserv.com)

**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](http://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, all clients’ assets are custodied at MSSB (except for “sweep” assets custodied at the Sweep Banks pursuant to the Bank Deposit Program). (Item 4)

**GIS Investment Products.** Currently, there are Investment Products available in Select UMA, which are referred to as “GIS Investment Products”. In GIS Investment Products, MSSB, acting through its Global Investment Solutions (“GIS”) program, acts as the Sub-Manager. Neither MSSB, an affiliate, nor any third party retained by MSSB or an affiliate will evaluate, or perform due diligence on, any GIS Investment Products. (Items 4.A, 6.B and 6.C)

**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 Select UMA 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)

**Proxy Voting.** Clients who do not elect to vote proxies themselves direct the Sub-Managers to vote the proxies. If MSSB is the Sub-Manager, you authorize us to follow all proxy voting recommendations of a third party proxy voting or advisory service. If the proxy voting service does not have a recommendation for any particular proxy vote, we will vote the proxy as we determine is appropriate. (Item 6.C)

## Item 3: Table of Contents

Item 1: Cover Page .....	1
Item 2: Material Changes .....	2
Item 3: Table of Contents .....	3
Item 4: Services, Fees and Compensation.....	4
A. General Description of the Select UMA ® Program and Services .....	4
General Description of the Select UMA Program .....	4
Account Opening .....	8
Restrictions .....	8
Trade Confirmations, Account Statements and Performance Reviews .....	8
Consulting Group Trust Services .....	8
Risks .....	9
Tax and Legal Considerations .....	9
Fees.....	9
B. Comparing Costs .....	10
C. Additional Fees.....	10
Funds in Advisory Programs .....	10
Cash Sweeps .....	12
D. Compensation to Financial Advisors.....	13
Item 5: Account Requirements and Types of Clients .....	13
Item 6: Portfolio Manager Selection and Evaluation .....	13
A. Selection and Review of Portfolio Managers and Funds for the Program.....	13
Eligible Financial Advisors .....	13
Selection and Review of Sub-Managers, Mutual Funds and ETFs .....	13
Calculating Sub-Managers' and Funds' Performance .....	15
B. Conflicts of Interest .....	15
Conflicts of Interest – MSSB or Financial Advisor Acting as Portfolio Manager; Advisory vs. Brokerage Accounts.....	15
Other Conflicts of Interest .....	15
C. MSSB and Financial Advisors acting as Portfolio Managers.....	18
Description of Advisory Services .....	18
Tailoring Services for Individual Clients .....	18
Wrap Fee Programs .....	18
Performance-Based Fees .....	19
Methods of Analysis and Investment Strategies.....	19
Policies and Procedures Relating to Voting Client Securities .....	19
Item 7: Client Information Provided to Portfolio Managers .....	19
Item 8: Client Contact with Portfolio Managers .....	19
Item 9: Additional Information .....	19
Disciplinary Information .....	19
Other Financial Industry Activities and Affiliations .....	24
Code of Ethics .....	24
Reviewing Accounts.....	25
Client Referrals and Other Compensation .....	25
Financial Information .....	25
Exhibit A: Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement.....	26
Exhibit B: GIS in Select UMA Methods of Analysis and Investment Strategies.....	28

## Item 4: Services, Fees and Compensation

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

### *MSSB is a Fiduciary to You.*

In serving as investment advisor to its clients (“client”, “you” and “your”) in this program, MSSB is a fiduciary to you. We are registered under the Investment Advisers Act of 1940, which places a fiduciary obligation on us in terms of the way that we provide services to you.

In addition, we reasonably expect to provide services as a “fiduciary” (as that term is defined in Section 3(21)(A) of the Employee Retirement Income Security Act of 1974 (“ERISA”)), with respect to Retirement Plans (as that term is defined herein) that invest in the Select UMA program.

As a fiduciary, we will assure that your best interests come first. We endeavor to provide you full disclosure of all material facts relating to our investment advisory relationship with you. Our advisory programs are designed to avoid conflicts of interest. In situations where the appearance of, or potential for, such a conflict is unavoidable, we will clearly disclose the details of this to you.

A key feature of this program is that we will provide you with objective investment advice. Investment choices for your account are the subject of an intensive due diligence process by our experienced professionals. Our recommendations of such products are only made after we have thoroughly reviewed your investment goals and risk tolerance and come to a conclusion that the recommended investment products are suitable and appropriate for you. We will provide on-going investment advice to you and monitor your investments to ensure that they remain consistent with your objectives and risk tolerance.

We will not effect transactions between your accounts and our own accounts (so-called “principal trading”) without your informed consent.

We will always attempt to obtain the most favorable terms for any transaction that we make in your accounts. This practice is often referred to as “best execution” in the industry.

We will supervise our Financial Advisors and other professionals to ensure that they are providing the services within appropriate guidelines and we will monitor our employees to ensure that they meet prevailing ethical standards. We will disclose material matters impacting your Financial Advisors to you.

Where we act as custodian for your account, we will safeguard your assets from access by unauthorized persons and we will protect the privacy of your personal and financial information.

We will clearly disclose information about the fees you pay and we receive.

Details about issues such as those described above are found throughout this ADV brochure.

### *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 (the “SB Channel”) generally provided the investment advisory programs previously provided by Smith Barney and/or Citigroup Global Markets Inc. (“CGM”). The other channel (the “MS Channel”) generally provided the investment advisory programs previously provided by Morgan Stanley & Co. Incorporated (now, Morgan Stanley & Co. LLC) (“MS&Co.”).

In 2012, MSSB merged the SB Channel and MS Channel advisory programs.

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

Now that this merger of the SB Channel and the MS Channel is complete, all clients’ assets are custodied at MSSB (except for “sweep” assets custodied 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.*

## **A. General Description of the Select UMA® Program and Services**

### **General Description of the Select UMA Program**

The Select UMA (“Select UMA”) program is a “Unified Managed Account” program. The Select UMA program offers a combined portfolio (the “Portfolio”) implemented by an investment manager (“Overlay Manager”) comprised of some or all of the following investment products (the “Investment Products”), which may or may not be affiliated with MSSB: (i) mutual funds; (ii) exchange traded funds or exchange traded trusts (collectively, “ETF’s”); (iii) securities in which the Overlay Manager shall invest in based on a model portfolio (the “Model Portfolio”) provided by one or more investment managers (“Sub-Managers”); and/or (iv) securities in which an Executing Sub-Manager (as defined below) shall invest in based on its own investment decisions. The Investment Products outlined in (iii) and (iv) of the preceding sentence shall be referred to as “SMA Investment Products”.

Except as provided in the following sentence, each Sub-Manager, mutual fund and ETF indicated as an Investment Product is selected from those that are on MSSB's Focus List or Approved List, as described in Item 6 below. Investment Products for which MSSB, Consulting Group Advisory Services LLC (an MSSB affiliate) or any employee, division, subsidiary or successor of either (i) is the Sub-Manager, (ii) is the sponsor, or (iii) provides investment management or other services, shall be referred to in this brochure as "MSSB Investment Products." Notwithstanding anything to the contrary provided in this brochure, neither MSSB, an affiliate, nor any third party retained by MSSB or an affiliate will evaluate, or perform due diligence on, any MSSB Investment Products. *Please see Item 6 (Portfolio Manager Selection and Evaluation) below, for more information on Investment Product selection.*

Currently, there are MSSB Investment Products available in Select UMA, which are SMA Investment Products and are referred to in this brochure as "GIS Investment Products". In GIS Investment Products, MSSB, acting through its Global Investment Solutions ("GIS") program, acts as the Sub-Manager. *Please see "MSSB's role as a Sub-Manager in the Select UMA Program" in this Item 4.A below, for more information on Sub-Manager Services provided by MSSB.*

Currently, MSSB, acting through its MSSB Private Portfolio Group division, is the Overlay Manager. *Please see "MSSB's Role as Overlay Manager in the Select UMA Program" in this Item 4.A below, for more information on Overlay Manager services provided by MSSB.*

### **Services Provided**

A Financial Advisor, or a MSSB affiliate, if applicable, assists you in the review and evaluation of investment objectives for each account through the use of a questionnaire and, if appropriate, updated confidential client information. Based on a review and evaluation of your investment objectives, MSSB or a MSSB affiliate, if applicable, and you (or MSSB in the event you have elected Financial Advisor Discretion or Firm Discretion (as defined below)) shall select a Portfolio. A Portfolio is a multi-style investment approach that allocates assets in your account to specific investment strategies.

In order to construct the Portfolio, unless you have elected the "custom" version of the Model (please see below), MSSB and you will select an asset allocation investment model (a "Model"), from among investment models pre-defined by MSSB. Each of the available Models will represent a different asset allocation (and accordingly will include one or more asset classes "Asset Classes") appropriate for a different investment objective/risk tolerance. Unless you have elected the "custom" version of the Model (please see below), MSSB will be responsible for setting the asset allocation of each Model, and adjusting the asset allocation from time to time as MSSB deems appropriate. This may include adding Asset Classes to any Model, at any time that MSSB determines that it is appropriate to do so (an "Asset Class Addition"). At times, there may be no allocation to some of the Asset Classes that were formerly in a Model. Unless you have elected the "custom" version of the Model, if MSSB adds an Asset Class to a Model MSSB will follow the procedures outlined below for an Asset Class Addition.

If you have not elected the "custom" version of the Model (please see below), you may choose to adopt either the "tactical" or "strategic" version of the Model. MSSB may leave the tactical or strategic Model asset allocation unchanged for as long as MSSB deems appropriate. However, it is anticipated that MSSB will change the asset allocation of the tactical version more frequently than that of the strategic version. Typically, MSSB will change the tactical Model asset allocation several times per year, while MSSB will change the strategic version only about once per year. Changes in the asset allocation or an Asset Class Addition will likely result in transactions in your account, and these transactions could have tax consequences for a taxable account.

If you elect the "custom" version of the Model, you (or MSSB in the event you have elected Financial Advisor Discretion (as defined below)) will define the Model by setting the asset allocation for the Model and adjusting the asset allocation from time to time as you (or MSSB in the event you have elected Financial Advisor Discretion (as defined below)) deems appropriate. If you elect the "custom" version of the Model, unless you have elected Financial Advisor Discretion, you (not MSSB) will determine the initial asset allocation for the Model and will be responsible thereafter for any adjustments to the asset allocation of the Model. Your Financial Advisor may utilize recommendations of the MSSB Global Investment Committee ("GIC") as a resource in assisting you in defining a custom Model. If the Financial Advisor does utilize MSSB GIC recommendations in connection with defining a custom Model, there is no guarantee that any Model defined will in fact mirror or track MSSB GIC recommendations.

Once MSSB and you (or MSSB in the event you have elected the "custom" version of the Model and Financial Advisor Discretion (as defined below)) have selected the Model, MSSB and you (or MSSB in the event you have elected Financial Advisor Discretion or Firm Discretion (as defined below)) will construct the Portfolio by populating each Asset Class comprising the Model with one or more Investment Products. Investment Products may or may not be affiliated with MSSB. MSSB will offer one or more of each of the following Investment Products for each Asset Class: mutual funds, ETFs and/or separate accounts which Overlay Manager shall invest in based on a Model Portfolio provided by one or more Sub-Managers (or which the Executing Sub-Managers (as defined below) invest in based on their own investment decisions). Unless you have elected Financial Advisor Discretion or Firm Discretion, if MSSB determines that the Asset Class that a Sub-Manager or Investment Product is included in should be changed (an "Asset Class Change"), MSSB will notify each client utilizing that Sub-Manager or Investment Product of the Asset Class Change, and shall follow the procedures outlined below for an Asset Class Change. MSSB and Overlay Manager will enter into agreements with each of the Sub-Managers to be responsible for providing Model Portfolios to Overlay Manager or (in the case of Executing Sub-Managers) for investing assets in client accounts based on their own investment decisions.

With your verbal, written or other consent, MSSB may assign you to a different Model or change Sub-Managers or Investment Products in a client's account.

In the Select UMA client agreement with MSSB, you authorize each Sub-Manager that provides a Model Portfolio (or

implements its investment decisions directly) for an Investment Product selected for or by you, to act as investment adviser to you. You authorize each Sub-Manager, as investment adviser to you, to exercise discretion to select securities for your account by (i) delivering a Model Portfolio to Overlay Manager, which Overlay Manager will implement (subject to any reasonable client instructions accepted by Overlay Manager), or (ii) (in the case of an Executing Sub-Manager) implementing its investment decisions directly. MSSB may provide each Sub-Manager with such information regarding you as may be reasonably necessary for the Sub-Manager to fulfill its obligations to you and to MSSB and the Overlay Manager. *See Item 7 (Client Information Provided to Portfolio Managers) below, for more information.* The Sub-Manager may delegate any or all of its functions to an affiliated or unaffiliated firm that meets MSSB's research standards, provided that the Sub-Manager shall remain liable for the performance of all its obligations in its agreement with MSSB.

In the Select UMA program, clients may elect the "Financial Advisor Discretion" option, pursuant to which you grant MSSB discretion to (a) select Sub-Managers or Investment Products for you, (b) change Sub-Managers or Investment Products and (c) (if you have also elected the "custom" version of the Model) define the Model asset allocation and adjust the asset allocation for you. MSSB will exercise this discretion primarily through an MSSB employee (the "Discretionary FA"), who shall initially be your Financial Advisor. If, for any reason, and in the sole discretion of MSSB, the Discretionary FA is unable to render such services, temporarily or permanently, or terminates his or her employment with MSSB, MSSB shall continue to render such services and shall promptly assign another Financial Advisor to act as the Discretionary FA on a temporary or permanent basis.

In the Select UMA program, clients may elect the "Firm Discretion" option, pursuant to which you grant MSSB discretion to (a) select Sub-Managers or Investment Products for you and (b) change the Sub-Managers or Investment Products. Clients may choose any one of three Firm Discretion options (mutual funds only, ETFs only or any Investment Product type), and (except as provided in the following sentence, only the type of Investment Product designated by you will be utilized to populate the Asset Classes comprising the Model which you have selected. Notwithstanding the foregoing, if you designate ETF only as the Firm Discretion option, then BDP (as defined in Item 4.C below) or money market mutual funds (as well as ETFs) may be used as an Investment Product or Sweep Investment (as defined in Item 4.C below). If you elect Firm Discretion, you may not select a "custom" Model or Financial Advisor Discretion, and your account does not qualify for Tax Management (as described below).

Pursuant to an agreement with MSSB, Overlay Manager shall invest and re-invest the assets in each client account, except that, in certain strategies, Sub-Managers (hereinafter "Executing Sub-Managers"; "Sub-Managers" includes Executing Sub-Managers as the context requires herein) may be granted responsibility by MSSB to implement some or all investment decisions directly. Most Executing Sub-Managers are fixed income Sub-Managers. Some Executing Sub-Managers may both deliver a Model Portfolio to Overlay Manager and implement some investment decisions directly. Overlay Manager will seek to manage your

account in a manner consistent with the Model and Investment Products selected by you and MSSB and the Model Portfolio provided by any applicable Sub-Manager, as qualified by any client instructions accepted by the Overlay Manager, including, without limitation, any instructions in connection with your selection of Tax Management services for the account, as described below. MSSB may change the Overlay Manager (which change may involve MSSB selecting an Overlay Manager that is or is not affiliated with MSSB) in its sole discretion at any time and for any reason. If there is a disruption in the services provided by Overlay Manager for any reason, MSSB or an affiliate may act as Overlay Manager during the period of the disruption. This may impact account performance. In addition, in the event of a disruption, MSSB may liquidate the applicable Portfolio (in whole or in part), and invest the proceeds in an affiliated or unaffiliated money market fund or other cash equivalents.

Periodically, Overlay Manager will re-balance your account in accordance with a re-balancing protocol specified by MSSB and agreed to by Overlay Manager.

Each Sub-Manager, mutual fund and ETF included as an Investment Product shall be selected from the universe of Sub-Managers, mutual funds and ETFs (which may or may not be affiliated with MSSB) with which MSSB has entered into an agreement, and (except for MSSB Investment Products) that are on MSSB's Focus List or Approved List (or their equivalent from time to time), as described in Item 6 below. Some or all of the Asset Classes may be limited to certain types of Investment Products. *Please see Item 6 (Portfolio Manager Selection and Evaluation) below, for more information on Investment Product selection.*

In the event that MSSB makes a determination that an Investment Product previously recommended to a client is no longer approved for the Select UMA program or an Investment Product is terminated from the Select UMA program for any other reason, either (x) a replacement Sub-Manager or Investment Product shall be selected by MSSB and you (or by MSSB if you elect Financial Advisor Discretion or Firm Discretion) from recommendations provided by MSSB, or (y) your Select UMA client agreement with MSSB shall automatically terminate upon a date selected by MSSB and communicated to you with reasonable advance notice. Unless you have elected the Financial Advisor Discretion or Firm Discretion option as described above (and except as otherwise provided in the following paragraphs of this Section), before a Sub-Manager is engaged or an Investment Product is selected for a client's assets pursuant to this paragraph, MSSB will notify you and ask that you select a new Investment Product(s) for the relevant Asset Class(s). MSSB's notice may also identify an appropriate replacement Investment Product selected by MSSB.

If a GIS Investment Product is terminated from the Select UMA program for any reason and there is another GIS Investment Product available in the same Asset Class, MSSB may select that other GIS Investment Product (which will be a MSSB Investment Product) as the replacement Investment Product.

If you do not select a new Investment Product within the time frame prescribed in MSSB's notice and if the notice identifies a replacement Investment Product, you will be deemed to have instructed MSSB (i) to discharge any terminated Sub-Manager and liquidate your account's holdings of any terminated mutual



fund or ETF and (ii) to engage on your behalf any replacement Sub-Manager, and purchase shares of any replacement mutual fund or ETF, identified by MSSB. When engaging a replacement Sub-Manager for a client's account, the implementation of the replacement Sub-Manager's Model Portfolio may result in liquidation of securities from the account.

Notwithstanding the previous paragraphs, unless you have elected Financial Advisor Discretion or Firm Discretion, MSSB will notify each client utilizing a Sub-Manager or Investment Product impacted by an Asset Class Change, of the Asset Class Change. Such notification may include an appropriate Sub-Manager or Investment Product (the "Change Default Product") that is in the Asset Class that you have selected. If you do not select a different Sub-Manager or Investment Product (or change to a different Model) prior to a date specified by MSSB in the notice of Asset Class Change, MSSB will change the Sub-Manager or Investment Product to the Change Default Product. Alternatively, such notification may indicate that unless you direct MSSB to take other action, you will remain in the Investment Product that is subject to the Asset Class Change, and MSSB will change your asset allocation investment Model to reflect the Asset Class Change.

Notwithstanding the previous paragraphs, unless you have elected a "custom" Model, in the event of an Asset Class Addition, MSSB may add the new Asset Class to the Model, and may populate the new Asset Class with an appropriate Sub-Manager or Investment Product.

Notwithstanding the preceding paragraphs, if (a) the amount in an Investment Product or Model in a client's account falls below the minimum for that Investment Product or Model (due to rebalancing, market activity or any other reason) or (b) a Sub-Manager elects to terminate its investment advisory relationship with you, MSSB may (without further consent from you) transfer your assets to another appropriate Investment Product or Model, which Investment Product or Model has a minimum investment for which your account qualifies.

In the Select UMA program, a client may elect tax management ("Tax Management") services for the account. In order to elect Tax Management services, you must complete and sign a Tax Management Services form, and deliver the signed form to MSSB. Tax Management services may conflict with investment decisions of applicable Sub-Managers and/or MSSB or Overlay Manager rebalancing decisions. In the event and to the extent of any such conflict, the Tax Management services selected by you will prevail and contrary MSSB, Overlay Manager and/or Sub-Manager investment advice will not be implemented for as long as such advice is contrary to such Tax Management services. As a result: (i) the account may not receive the benefits, including gains and avoided losses, of certain recommended purchases and sales of securities; and (ii) the account's composition and performance may vary significantly from that of client accounts for which similar Tax Management services have not been selected.

#### ***MSSB's Role as a Sub-Manager in the Select UMA Program***

In GIS Investment Products, MSSB, acting through its employees who are portfolio managers in its Global Investment Solutions program, acts as a SMA Investment Product Sub-Manager. In GIS Investment Products, MSSB makes day-to-day investment decisions for those portions of clients' Select

UMA accounts invested in various investment strategies that are available through the GIS Investment Products. Several professionally managed strategies are available in GIS Investment Products and are designed to fit a broad range of goals, diversification objectives and risk tolerance levels. Each team of GIS portfolio managers focuses on particular asset classes and investment approaches.

Depending on their particular strategy, GIS portfolio managers may be able to invest in a broad range of securities and financial instruments.

GIS portfolio managers are limited to investing in the types of investments available in the GIS program.

All GIS Strategies that are approved for the MSSB GIS program, are implemented by the Private Portfolio Group from time to time, and do not utilize unaffiliated sub-advisers, are available in GIS in Select UMA. The following GIS Strategies are currently available in the GIS in Select UMA program:

#### ***Managed by Applied Equity Advisors:***

- Global Core Equity
- Global Concentrated Equity
- US Core Equity

#### ***Managed by Fundamental Equity Advisors:***

- Fundamental All-Cap Equity
- Fundamental All-Cap Equity ex-MLPs
- Fundamental Small/Mid-Cap Core

#### ***Managed by Opportunistic Equity:***

- Opportunistic US Equity

Please see the MSSB Global Investment Solutions ADV brochure, for more information on the GIS program. You may obtain this at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) or by asking your Financial Advisor. Please see "Methods of Analysis and Investment Strategies" in Item 5C below and in Exhibit B, for more information on the GIS in Select UMA investment strategies

#### ***MSSB's Role as Overlay Manager in the Select UMA Program***

MSSB generally performs its role as Overlay Manager through its MSSB Private Portfolio Group division.

As Overlay Manager, MSSB provides the following portfolio implementation and coordination services (as applicable) with respect to client accounts invested in the Select UMA program:

- i. implementing investment instructions furnished to MSSB by Sub-Managers concerning the securities to be purchased, held, or sold for client accounts, and determining the amount of securities to be purchased or sold for client accounts, in accordance with rules and procedures agreed to by MSSB and the Sub-Managers;
- ii. placing orders for and arranging for the purchase or sale of securities with broker-dealers to implement the investment instructions of the Sub-Managers and/or communicating the amount of securities to be purchased or sold for client accounts to Executing Sub-Managers for execution with broker-dealers selected by the Executing Sub-Managers;
- iii. placing orders for the purchase, sale, or redemption of shares of mutual funds and ETFs to implement the

investment instructions of clients and/or Sub-Managers (applicable for portfolios and programs involving investment in mutual funds or ETFs);

- iv. rebalancing client accounts among two or more Investment Products;
- v. implementing reasonable restrictions imposed by a client on the management of the non-mutual fund/ETF holdings portion of such client's account; and
- vi. managing client accounts consistent with asset allocation or Asset Class selections made by clients.

MSSB is directed by the applicable Sub-Manager's instructions as to the securities to purchase and sell for client accounts.

### **Account Opening**

To enroll in the Select UMA program, you (or your Financial Advisor on your behalf) must complete an investment questionnaire. You must also enter into the Select UMA client agreement ("Client Agreement").

### **Restrictions**

In the Select UMA program, you may impose reasonable restrictions on account investments. For example, you may restrict MSSB from buying specific securities or a category of securities (e.g., tobacco companies). If you restrict a category of securities, we will determine which specific securities fall within the restricted category. In doing so, we may rely on outside sources (e.g. standard industry codes and research provided by independent service providers). Any restrictions you impose on individual securities have no effect on mutual fund or ETF holdings since mutual funds and ETFs operate in accordance with the investment objectives and strategies described in their prospectuses. In Select UMA, the portion of the account that would have been invested in any restricted security or category of securities will be invested in cash or cash equivalents. This will impact the performance of the account relative to an account that is fully invested in securities.

### **Trade Confirmations, Account Statements and Performance Reviews**

MSSB is the custodian and provides you with written confirmation of securities transactions, and account statements at least quarterly. You may waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication where available. You may also receive mutual fund prospectuses, where appropriate.

We will provide periodic reviews of your account. These reviews show 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, please go to: <https://www.morganstanleyclientserv.com/FreeContent/Enrollments/Identification.aspx> and follow the step-by-step instructions. If, however, you would like to receive these reports by mail, please call 1-888-454-3965.

### **Consulting Group Trust Services**

In the Select UMA program, MSSB may offer fully integrated wealth management solutions, which may include trusts. MSSB will not accept an appointment as, 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 elect any version of the Select UMA program, including FA discretion or Firm Discretion. 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 custody your assets 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", in this Item 4(A) below). For additional information and to determine



eligibility for CG Trust Services, please contact your Financial Advisor.

## Risks

All trading in an account is at your risk. The value of the assets held in an account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. Investment performance of any kind is not guaranteed, and MSSB's, a Financial Advisor's or a Sub-Manager'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 mutual funds, ETFs or Sub-Managers may use in the Select UMA program have specific risks, including those associated with investments in common stock, fixed income securities, American Depositary Receipts, mutual funds, ETFs and foreign securities. You should consult with your Financial Advisor regarding the specific risks associated with the investments in your account. Also, please review any Sub-Manager's ADV brochure for a discussion of the material risks associated with any Strategy you may have selected. You may obtain this at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) or by asking your Financial Advisor.

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

For other risks relating to the particular strategy you hold in your account, please see your Sub-Manager's ADV brochure. The current version of your Sub-Manager's ADV brochure is online at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV), or you can ask your Financial Advisor for a copy.

## Tax and Legal Considerations

Replacing a Sub-Manager may result in sales of securities and subject you to additional income tax obligations. 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.

*See General Description of the Select UMA Program in this Item 4.A above, for information regarding the "Tax Management" election in the Select UMA program.*

## Fees

In the Select UMA program, the client pays an asset-based fee to MSSB (the "MSSB Fee"), which covers MSSB investment advisory services, custody of securities, trade execution with or through MSSB, as well as compensation to any Financial Advisor. This is a wrap fee. However, the Overlay Manager and Sub-Manager fees (including any applicable GIS in Select UMA Sub-Manager fees) are separate from (and in addition to) the MSSB Fee. The maximum annual MSSB Fee for the Select UMA program is 2.00% of the market value of the client's account.

Also, if the Financial Advisor Discretion option is chosen, the MSSB Fee includes an additional charge for Financial Advisor discretionary services of 25% of MSSB's basic advisory fee described above for a total maximum MSSB Fee of 2.50%.

As indicated above, Overlay Manager and Sub-Manager fees are separate from (and in addition to) the MSSB Fee. The Overlay Manager fee is up to a 0.12% asset-based annual fee. The Sub-Manager fees will vary depending on the Sub-Manager and the investment strategy of the Sub-Manager. The asset-based annual fees of the Sub-Managers generally range from 0.20% to 0.75%.

**Fees are Negotiable.** Fees for the Select UMA 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 the client's agreement, the fee charged to a client for an account may be more than the maximum annual fee stated in this section.

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

**Breakpoints.** Fee rates in the Select UMA 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 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.** A portion of the MSSB Fee will be paid to your Financial Advisor. *See Item 4.D below (Compensation to Financial Advisors), for more information.*

## B. Comparing Costs

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 MSSB Fee in the Select UMA program. However, such transactions could not be executed on a discretionary basis in a brokerage account. Clients who participate in the Select UMA program pay a fee based on the market value of the account for a variety of services, and accordingly may pay more or less for such services than if they purchased such services separately (to the extent that such services would be available separately to the client). Furthermore, the same or similar services to those available in the Select UMA program may be available at a lower fee in programs offered by other investment advisors. For certain investment styles there may be a mutual fund and separately managed account offered by the same investment management

firm and, therefore, the underlying investments in the separately managed account and the mutual fund may be substantially identical. Because the underlying expenses and fees of the separately managed account are generally lower, the performance of a separately managed account is generally higher than that of the comparable mutual fund. Therefore, in these investment styles if the client meets the minimum level of investment for the separately managed account, the client may have a financial benefit to select the separately managed account as the investment product. In addition, the MSSB Consulting Group offers other programs that do not offer mutual funds or ETFs, and do not offer the services of an Overlay Manager or Sub-Managers. The fees in those programs may be higher or lower than the fees in the Select UMA program.

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 program described in this brochure, you will pay us an asset-based MSSB Fee, as described above. This “wrap fee” covers MSSB investment advisory services, custody of securities, trade execution through MSSB, as well as compensation to any Financial Advisor. You also pay the separate Overlay Manager and Sub-Manager fees, (including any applicable MSSB Overlay Manager fees and GIS in Select UMA Sub-Manager fees) which cover the services of those entities.

The program fees do not cover:

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

## Funds in Advisory Programs

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

You do not pay any sales charges for purchases of mutual funds in 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 Select UMA program, of up to 0.16% of the assets of such Mutual Funds that are held by MSSB clients (referred to as a “participation fee”). 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”).

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.

For more information, please refer to the document “Mutual Fund Share Classes and Compensation”, at [http://www2.morganstanley.com/wealth/investmentsolutions/pdf/s/MF\\_share\\_classes.pdf](http://www2.morganstanley.com/wealth/investmentsolutions/pdf/s/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 the applicable 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.

Sub-Managers may purchase (or direct Overlay Manager to purchase) mutual funds for your account. These mutual funds may include:

- mutual funds available only to managed account clients and that do not charge fund-level investment advisory, management or administration fees (“Managed Account Funds”) or
- other mutual funds.

The Managed Account Fund shares will be redeemed, and other mutual fund shares held in your account may be redeemed, on a

manager change or account termination, or on a transfer of such mutual fund shares out of your managed account. For a taxable account, there will be tax consequences associated with the redemption.

On termination of your account for any reason, or the transfer of Mutual Fund shares out of your advisory account, if, at the time of termination or transfer, your account includes Mutual Funds in share classes that are not available in non-advisory accounts, we may convert these funds to a share class that is available in non-advisory accounts (even though the expense ratio for that share class may be higher than the expense ratio for the share class of the fund previously held in your account). 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.

If a Sub-Manager uses an open or closed end mutual fund or an exchange-traded fund, any such Fund may pay its own separate investment advisory fees and other expenses to the fund manager or other service provider. In addition, an open-end mutual fund may charge distribution or servicing fees. In both cases, these fees or expenses will be in addition to the fee you pay to us or the Sub-Manager on your account.

### **Cash Sweeps**

Generally, some portion of your account will be held in cash. MSSB, as your custodian, 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 Exhibit A 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. and/or (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 SIPC or excess coverage.

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

Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which will be provided to you upon your first investment in the Bank Deposit Program. You may also obtain the Bank Deposit Program Disclosure Statement as well as current interest rates applicable to your account, by contacting your Financial Advisor or through MSSB’s web site at [www.morganstanley.com/wealth/services/bankdepositprogram.asp](http://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 will 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 Exhibit A attached ("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 rate of compensation we pay Financial Advisors with respect to program accounts is typically higher than the rate we pay Financial Advisors with respect to transaction-based brokerage accounts. Your Financial Advisor may therefore have a financial incentive to

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

If you invest in the program described in this brochure, the Financial Advisor may agree to 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 the Select UMA 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**

**Account Minimums.** The Select UMA program generally has a minimum account size of \$25,000. The minimum may be greater than \$25,000 for some Investment Products.

**Types of Clients.** 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 Program**

#### **Eligible Financial Advisors**

In the Select UMA program, Financial Advisors generally are appropriately licensed, have an acceptable compliance record, and (before they assume Select UMA Financial Advisor Discretion pursuant to a client selection of this option) have successfully completed a Select UMA Financial Advisor Discretion certification course of study.

#### **Selection and Review of Sub-Managers, Mutual Funds and ETFs**

In the Select UMA program, we offer a wide range of Investment Products (including Sub-Managers, mutual funds and ETFs) that we have selected and approved. Item 4.A above describes the basis on which we recommend particular Investment Products to particular clients. This Item 6.A describes more generally how we select and terminate Investment Products from this program. If Sub-Managers have more than one strategy, we may include only some of those strategies in the program described in this brochure, may carry different strategies in different programs, and assign different statuses to different strategies.

As indicated in Item 4.A above, notwithstanding anything to the contrary provided in this brochure, neither MSSB, an affiliate, nor any third party retained by MSSB or an affiliate will evaluate, or perform due diligence on, any MSSB Investment Products.



Our Consulting Group Investment Advisor Research department (“CG IAR”) evaluates Investment Products other than MSSB Investment Products. CG IAR may delegate some or all of its functions to an affiliate or third party. Except for MSSB Investment Products, Investment Products may only participate in the Select UMA program if they are on CG IAR’s Focus List or Approved List discussed below. You may obtain these lists from your Financial Advisor. Only some of the Investment Products may be available, in the Select UMA program.

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

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

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

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

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

**Approved List.** The process for considering Investment Products for the Approved List is less comprehensive, and evaluates various qualitative and quantitative factors. These may include personnel depth, turnover and experience; investment process; business and organization characteristics; and investment

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

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

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

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

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

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

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



additional information, ask your Financial Advisor for a copy of CG IAR's Watch Policy.

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

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

## **Calculating Sub-Managers' and Funds' Performance**

**Sub-Managers' Performance.** In the Select UMA program, we generally present 10 years of a Sub-Manager's performance history in reports available to clients. For periods before MSSB merged its SB channel and MS Channel (in 2012), this performance history is based on the Sub-Manager's performance in either the MS Channel Fiduciary Services program or the SB Channel Fiduciary Services program. We calculate this performance using both asset-weighted and equal-weighted monthly performance returns for the investment manager composite data.

We do not have a third party review this composite return data. Instead, we perform a monthly reconciliation on the individual accounts in the composite. We compare the monthly performance returns for individual accounts to the monthly performance returns for their peer accounts in the same investment style. We then review any outstanding "outliers" that have significantly higher or lower monthly performance returns than the average peer account in the same investment style.

If we do not have a performance track record for 10 years based on our own program data, we generally show performance data supplied by the Sub-Manager for earlier periods so you can see 10 years of performance. In this case, the Sub-Manager determines the standards used to calculate this data.

**Mutual Fund and ETF Performance.** For mutual fund and ETF Investment Products, we utilize the published performance for those Funds.

## **B. Conflicts of Interest**

### **Conflicts of Interest – MSSB or Financial Advisor Acting as Portfolio Manager; Advisory vs. Brokerage Accounts**

If the Select UMA client has elected Firm Discretion or Financial Advisor Discretion, the Financial Advisor (or MSSB) acts as the portfolio manager as described above. If the client has elected Financial Advisor Discretion, the MSSB Fee includes an additional charge for Financial Advisor discretionary services of 25% of MSSB's basic advisory fee.

If the Select UMA client is utilizing GIS in Select UMA as a SMA Investment Product, MSSB (acting through a GIS portfolio manager) acts as the portfolio manager and is compensated accordingly as described above. In this case, MSSB retains all the client fee you pay in the Select UMA program. In contrast, in Select UMA or other MSSB investment advisory programs in which an unaffiliated third party manager acts as your portfolio manager:

- we pay to the manager some of the fee we receive from you or
- you pay separate fees to us for our services and to the portfolio manager for its services.

This creates a conflict of interest for MSSB, as there is a financial incentive to recommend Financial Advisor Discretion or GIS in Select UMA. As explained in Item 4.A above, GIS in Select UMA is a MSSB Investment Product (MSSB is the Sub-Manager), and accordingly neither MSSB, an affiliate, nor any third party retained by MSSB or an affiliate will evaluate, or perform due diligence on, GIS in Select UMA. Therefore, GIS in Select UMA is not subject to the same selection and review as Investment Products that are not MSSB Investment Products. The GIS business head conducts a quarterly review of each GIS investment strategy, which would monitor the GIS in Select UMA strategies for issues including diversification, style drift, cash level, dispersion and adherence to GIS program requirements.

MSSB and your Financial Advisor are likely to earn more compensation if you invest in the 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 this brochure). Financial Advisors and MSSB therefore have a financial incentive to recommend the program described in this brochure, and to recommend Financial Advisor Discretion.

We address these conflicts of interest by disclosing them 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.

### **Other Conflicts of Interest**

As well as the conflicts of interest arising from MSSB or your Financial Advisor acting as portfolio manager, MSSB has various other conflicts of interests relating to the program described in this brochure.

**Payments from Investment Managers.** Investment 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. These investment managers are Sub-Managers and/or act as investment managers (or in other capacities) for Funds. On request, your Financial Advisor can provide you with a schedule of these payments.

While we provide sponsorship opportunities to all investment managers in our investment advisory programs, certain investment 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 strategies and Funds to Financial Advisors and clients. This could lead Financial Advisors to focus on strategies and Funds offered by our Global Partners when recommending products to clients instead of those from other investment managers that do not commit similar resources to educational, marketing and other promotional efforts. MSSB selects investment managers to be Global Partners based on quantitative and qualitative criteria.

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

Investment managers are allowed to occasionally give nominal gifts to Financial Advisors, and to occasionally entertain Financial Advisors, subject to a limit of \$1,000 per 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 investment 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 Investment Managers" section do not relate to any particular transactions or investment made by MSSB clients with investment managers. Investment 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.

***Payments from Mutual Funds.*** The only Mutual Funds offered in the program described in this brochure (other than Money Market Funds) are those that have agreed to pay us the types of payments described above in Item 4.C. We have a conflict of interest in offering Mutual Funds because we or our affiliates earn more money in your account from your investments in Mutual Funds than from other investment options. However, we do not share this money with your Financial Advisor (i.e. the compensation we pay to your Financial Advisor is not affected by the payments we receive from the Mutual Funds). Therefore, your Financial Advisor does not have a resulting incentive to recommend or buy Mutual Funds in your account, or to recommend or buy certain Mutual Funds rather than other Mutual Funds.

***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, the trading of MSSB, a Sub-Manager or their affiliates – both for their proprietary accounts and for client accounts – may be detrimental to securities held by a client and thus create a conflict of interest. We address this conflict by disclosing it to you.

***Trade Allocations.*** MSSB or an Executing Sub-Manager may aggregate the securities to buy or sell for more than one client to obtain favorable execution to the extent permitted by law. MSSB or the Executing Sub-Manager is then responsible for allocating the trade in a manner that is equitable and consistent with its fiduciary duty to its clients (which could include, e.g., pro rata allocation, random allocation or rotation allocation). For block trade orders executed by MSSB, the price to each client is the average price for the aggregate order. MSSB performs these trade allocation functions as part of its duties as Overlay Manager, as described in Item 4.A 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, for various clients (including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts), and for investment managers in the program described in this brochure. MSSB, investment managers, MS&Co. 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, investment managers, MS&Co. and their affiliates perform investment banking or other services.

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

MSSB, the investment managers and their affiliates may also develop analyses and/or evaluations of securities sold in the 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.

**Research Reports.** MS&Co. does business with companies covered by its 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 Investment Products.** Certain of the Investment Products in the Select UMA program (including GIS Investment Products) are affiliated with MSSB. As to each Asset Class, there may be affiliated and unaffiliated Investment Products available for selection; however, Investment Products affiliated with MSSB (except the Money Market Fund) will not be available to Retirement Plans. Although some Investment Products may be available in more than one MSSB program, each program may offer Investment Products and other features that are not available in other MSSB programs. You understand that MSSB and our affiliates will receive more aggregate compensation when you (or MSSB, if you have selected Firm Discretion or Financial Advisor Discretion) select an Investment Product that is affiliated with MSSB than if you (or MSSB) select an Investment Product that is not affiliated with MSSB. If Financial Advisors provide Model Portfolios that MSSB uses when you (or MSSB) select MSSB or an affiliate as the Sub-Manager, MSSB will compensate the Financial Advisors for doing so. Accordingly, any such Financial Advisor who provides Model Portfolios will receive more aggregate compensation when he or she does so. The Financial Advisor receiving this additional compensation may be your Financial Advisor (who may be acting as the Discretionary FA). The selection of MSSB or an affiliate as a Sub-Manager or of a MSSB affiliated Fund may also be more costly to your account than other options in the same Asset Class. In addition, some Investment Products that are affiliated with MSSB may charge higher fees than other affiliated Investment Products in the same Asset Class or in other Asset Classes. Thus, MSSB and our Financial Advisors have a conflict of interest when identifying (or selecting, if you have selected Firm Discretion or FA Discretion) Investment Products. Similarly, if a Sub-Manager or a Fund is not affiliated with us but we have an ownership share in the Sub-Manager or in the Fund’s manager, we and our Financial Advisors have a conflict of interest in identifying that Sub-Manager or Fund to the Client because, as an owner of the Sub-Manager or the Fund’s manager, we benefit from its profits.

**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 (Services, Fees and Compensation -- Additional Fees – Cash Sweeps – Bank Deposit Program and Money Market Funds), for more information.*

**Nonpublic Information.** In the course of investment banking or other activities, MSSB, the Investment Products, and each of their respective affiliates and Agents may from time to time acquire confidential or material nonpublic information that may prevent them, for a period of time, from purchasing or selling particular securities for the account. You acknowledge and agree that MSSB, the Investment Products, and each of their respective affiliates and Agents will not be free to divulge or to act upon this information with respect to their advisory or brokerage activities, including their activities with regard to the account. This may adversely impact the investment performance of the account.

**Benefits to Financial Advisors.** Client understands that MSSB or Financial Advisors or employees of MSSB affiliates may receive a financial benefit from any Overlay Manager or Sub-Manager in the form of compensation for trade executions for the accounts of Overlay Manager or Sub-Manager or accounts that are managed by such Overlay Manager or Sub-Manager, or through referrals of brokerage or investment advisory accounts to MSSB or the Financial Advisor or employees of MSSB affiliates by such Overlay Manager or Sub-Manager. These Overlay Managers or Sub-Managers may include an Overlay Manager or Sub-Manager recommended to clients by the Financial Advisor or employees of MSSB affiliates in any of the Consulting Group programs.

**Other Investment Products Available.** Client understands that Overlay Managers or Sub-Managers may offer to the public other investment products such as mutual funds with similar investment styles and holdings as those investment products offered through the Consulting Group programs. Such products may be offered at differing fees and charges that may be higher or lower than the fees imposed by MSSB under a Consulting Group program. Furthermore, Client understands that a separate account Investment Product and a mutual fund Investment Product may utilize the same investment manager and investment strategy, but involve different minimum investment amounts and fees. Fees for a separate account Investment Product may be lower than for a similar mutual fund Investment Product. Even where Client has elected Financial Advisor Discretion, Client's Portfolio may include a mutual fund Investment Product even where a similar but lower cost separate account Investment Product is available, and MSSB will not necessarily change to the separate account Investment Product if Client's assets increase to above the minimum investment amount for the separate account Investment Product. Clients should discuss all investment options with their Financial Advisor or other MSSB affiliated contact.

**Other Business With Certain Firms.** Certain investment management firms (which may include Sub-Managers, including Executing Sub-Managers, as well as the managers of Funds in the Select UMA program) do other business with MSSB or its affiliates.

**Block Trades.** Overlay Manager or Executing Sub-Manager may direct some block trades to MSSB for execution, which

blocks may include trades for other clients of MSSB and/or Overlay Manager or Executing Sub-Manager. Although MSSB executes these block trades at no commission, MSSB may obtain a benefit from executing these block trades, as a result of the increased trading volume attributable to these blocks.

**Consulting Group Trust Services.** MSSB has made arrangements to have a number of external trust companies participate in CG Trust Services. *Please see Item 4.A above, for a full description of services and potential conflicts of interest.*

## **C. MSSB and Financial Advisors acting as Portfolio Managers**

### **Description of Advisory Services**

If the Select UMA client has elected Financial Advisor Discretion, MSSB, acting primarily through the Discretionary FA, acts as the portfolio manager as described in Item 4.A above. Similarly, if the Select UMA client has elected Firm Discretion, MSSB acts as the portfolio manager as described in Item 4.A above. If the Select UMA client is utilizing GIS in Select UMA as a SMA Investment Product, MSSB (acting through a GIS portfolio manager) acts as the portfolio manager. *See Item 4.A above for a description of the services offered in the program described in this brochure.*

### **Tailoring Services for Individual Clients**

With the assistance of your Financial Advisor, you may select a particular investment strategy for your account. You may also place reasonable restrictions on the investments in your account (as discussed above in Item 4.A).

Unless you have elected Financial Advisor Discretion, Firm Discretion or GIS in Select UMA, MSSB does not have discretion to select securities or investment Strategies for you in the Select UMA program. Therefore (unless you have elected Financial Advisor Discretion or Firm Discretion), you will select the Sub-Managers and Strategy(ies) for your account with the assistance of your Financial Advisor.

MSSB tailors its advisory services to individual clients in the Select UMA program by advising the clients as to appropriate Sub-Managers or other Investment Products (or in the case of Firm Discretion or Financial Advisor Discretion), selecting appropriate Sub-Managers or other Investment Products. *See Item 4.A above, for more information.*

### **Wrap Fee Programs**

MSSB acts as both the wrap fee program sponsor and (in the case of Financial Advisor Discretion, Firm Discretion or GIS Investment Products) the portfolio manager in the program described in this brochure. MSSB acts as the portfolio manager in the GIS wrap fee program, as described in more detail in the MSSB Global Investment Solutions ADV brochure. You may obtain this at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) or by asking your Financial Advisor. MSSB receives the entire MSSB Fee and Overlay Manager fee in the program described in this brochure. As explained in Item 4.A above, the Sub-Manager fees are separate from (and in addition to) the MSSB Fee. MSSB does not retain any portion of the Sub-Manager fees, unless MSSB or an affiliate is the Sub-Manager (as is the case in GIS in Select UMA).

MSSB does not act as portfolio manager in any programs which are not wrap fee programs but are otherwise similar to the program described in this brochure.

### **Performance-Based Fees**

The Select UMA program does not charge performance-based fees.

### **Methods of Analysis and Investment Strategies**

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

If a GIS Investment Product is utilized as a SMA Investment Product, teams of GIS portfolio managers offer the investment strategies, and utilize the methods of analysis, shown on Exhibit B attached hereto, "GIS in Select UMA Methods of Analysis and Investment Strategies". For more information, please see the MSSB Global Investment Solutions ADV brochure. You may obtain this at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) or by asking your Financial Advisor. More detailed information on each strategy is available on request.

### **Policies and Procedures Relating to Voting Client Securities**

***Electing Who Votes Proxies.*** Clients who do not elect to vote proxies themselves direct the Sub-Managers to vote the proxies. If MSSB is the Sub-Manager (as is the case in GIS in Select UMA), in voting proxies clients authorize MSSB to follow all proxy voting recommendations of a third-party proxy voting or advisory service (the "Proxy Voting Service"). If the Proxy Voting Service does not have a recommendation for any particular proxy vote, MSSB will vote the proxy as it determines is appropriate.

Unless you authorize the Sub-Managers or 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. If the Sub-Managers (including MSSB) vote proxies for you, you cannot instruct them on how to cast any particular vote.

Neither MSSB nor the Sub-Managers will 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.*** If MSSB is the Sub-Manager and you have delegated proxy voting authority to the Sub-Manager as provided above, you may obtain information as to how MSSB voted proxies for your account during the prior annual period, from your Financial Advisor. You may also obtain a copy of MSSB's relevant proxy voting policies and procedures (including a copy of the Proxy Voting Service's policy guidelines and vote recommendations in effect from time to time), from your Financial Advisor.

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**

If the Select UMA client has elected Financial Advisor Discretion, the Financial Advisor acts as the portfolio manager as described above. The Financial Advisor has access to the information you provide at and subsequent to account opening (the "Client Information"), including information regarding your investment objectives, financial information, risk tolerance and any reasonable restrictions you may impose on management of your account. This includes information in the client profile and investment questionnaire you complete (or your Financial Advisor completes for you) as part of the account opening process.

If a Sub-Manager that is not an Executing Sub-Manager (a "Non-Executing Sub-Manager") is providing a Model Portfolio for your Select UMA account, the Non-Executing Sub-Manager would be acting as a portfolio manager, as described in Item 4.A. above. MSSB is a Non-Executing Sub-Manager, in GIS in Select UMA. In this event, MSSB will, when requested by the Non-Executing Sub-Manager, furnish the Non-Executing Sub-Manager with the Client Information relating to clients whose accounts are managed by the Non-Executing Sub-Manager ("Sub-Manager Clients"). In addition, monthly and when requested by a Non-Executing Sub-Manager, MSSB will provide the Non-Executing Sub-Manager with a report showing some or all of the following information for each Sub-Manager Client: client name; Financial Advisor and account number; dollar amount managed by the Non-Executing Sub-Manager; and whether or not the account is Retirement Plan. Most Non-Executing Sub-Managers are equity Sub-Managers.

An Executing Sub-Manager would be acting as a portfolio manager, as described in Item 4.A. above. In this event, MSSB will provide the Client Information to the Executing Sub-Manager at the time the account is opened and when you change to a different asset allocation investment Model. Most Executing Sub-Managers are fixed income Sub-Managers.

## **Item 8: Client Contact with Portfolio Managers**

In the program described in this brochure, you may contact your Financial Advisor at any time during normal business hours.

MSSB will generally conduct all communication with clients, except that clients may be referred to Sub-Managers for complex and non-routine questions or communications.

MSSB will use reasonable efforts to encourage each Sub-Manager to be reasonably available to you and your Financial Advisor for joint consultation regarding the management of your account and your financial situation and investment objectives.

## **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 LAWC dated August 1, 2005, the NASD found that MSDW failed to establish and maintain a supervisory system, including written procedures, reasonably designed to review and monitor MSDW's fee-based brokerage business, between January 2001 and December 2003. Without admitting or denying the allegations, MSDW consented to the described sanctions and findings and was censured and fined \$1.5 million, and agreed to the payment of restitution to 3,549 customers in the total amount of approximately \$4.7 million, plus interest.
- The SEC alleged that MS&Co. violated the Exchange Act by inadvertently failing to timely produce emails to the SEC staff pursuant to subpoenas in the SEC's investigation into MS&Co.'s practices in allocating shares of stock in IPOs and an investigation into conflicts of interest between MS&Co.'s research and investment banking practices. Without admitting or denying the allegations, MS&Co. consented to a final judgment on May 12, 2006 in which it was permanently restrained and enjoined from violating the Exchange Act. MS&Co. agreed to make payments aggregating \$15 million,

which amount was reduced by \$5 million contemporaneously paid by MS&Co. to the NASD and the NYSE in related proceedings. MS&Co. also agreed to notify the SEC, the NASD and the NYSE that it has adopted and implemented policies and procedures reasonably designed to ensure compliance with the Exchange Act. MS&Co. also agreed to provide annual training to its employees responsible for preserving or producing electronic communications and agreed to retain an independent consultant to review and comment on the implementation and effectiveness of the policies, procedures and training.

- On June 27, 2006, the SEC announced the initiation and concurrent settlement of administrative cease and desist proceedings against MS&Co. and MSDW for failing to maintain and enforce adequate written policies and procedures to prevent the misuse of material nonpublic information. The SEC found that from 1997 through 2006, MS&Co. and MSDW violated the Exchange Act and the Advisers Act by failing to (1) conduct any surveillance of a number of accounts and securities; (2) provide adequate guidance to MS&Co.'s and MSDW's personnel charged with conducting surveillance; and (3) have adequate controls in place with respect to certain aspects of "Watch List" maintenance. The SEC's findings covered different areas from the 1997 through 2006 time period. MS&Co. and MSDW were ordered to pay a civil money penalty of \$10 million and agreed to enhance their policies and procedures.
- On August 21, 2006, MS&Co. and MSDW entered into a LAWC relating various finds that, at various times between July 1999 and 2005, MS&Co. violated a number of NASD and SEC rules. The violations related to areas including trade reporting through the Nasdaq Market Center (formerly Automated Confirmation Transaction Service (ACT)), Trade Reporting and Compliance Engine (TRACE) and Order Audit Trail System (OATS); market making activities; trading practices; short sales; and large options positions reports. The NASD also found that, at various times during December 2002 and May 2005, MSDW violated NASD rules and Municipal Securities Rulemaking Board ("MSRB") rules related to areas including trade reporting through TRACE, short sales, and OATS. The NASD further found that, in certain cases, MS&Co. and MSDW violated NASD Rule 3010 because their supervisory systems did not provide supervision reasonably designed to achieve compliance with securities laws, regulations and/or rules.

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

- On May 9, 2007, the SEC issued an Order ("May 2007 Order") settling an administrative action with MS&Co. In this matter, the SEC found that MS&Co. violated its duty of

best execution under the Exchange Act. In particular, the SEC found that, during the period of October 24, 2001 through December 8, 2004, MS&Co.'s proprietary market-making system failed to provide best execution to certain retail OTC orders. In December 2004, MS&Co. removed the computer code in the proprietary market-making system that caused the best execution violations. MS&Co. consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, to pay disgorgement of approximately \$5.9 million plus prejudgment interest on that amount, and to pay a civil penalty of \$1.5 million. MS&Co. also consented to retain an Independent Compliance Consultant to review its policies and procedures in connection with its market-making system's order handling procedures and its controls relating to changes to those procedures, and to develop a better plan of distribution.

- On July 13, 2007, the NYSE issued a Hearing Board Decision in connection with the settlement of an enforcement proceeding brought in conjunction with the New Jersey Bureau of Securities against CGM. The decision held that CGM failed to (1) adequately supervise certain branch offices and Financial Advisors who engaged in deceptive mutual fund market timing on behalf of certain clients from January 2000 through September 2003 (in both proprietary and non-proprietary funds); (2) prevent the Financial Advisors from engaging in this conduct; and (3) make and keep adequate books and records. Without admitting or denying the findings, CGM agreed to (a) a censure; (b) establishing a \$35 million distribution fund for disgorgement payments; (c) a penalty of \$10 million (half to be paid to the NYSE and half to be paid to the distribution fund); (d) a penalty of \$5 million to be paid to the State of New Jersey; and (e) appointing a consultant to develop a plan to pay CGM's clients affected by the market timing.
- On September 27, 2007, MS&Co. entered into a LAWC with the Financial Industry Regulatory Authority ("FINRA"). FINRA found that, from October 2001 through March 2005, MSDW provided inaccurate information to arbitration claimants and regulators regarding the existence of pre-September 11, 2001 emails, failed to provide such emails in response to discovery requests and regulatory inquiries, failed adequately to preserve books and records, and failed to establish and maintain systems and written procedures reasonably designed to preserve required records and to ensure that it conducted adequate searches in response to regulatory inquiries and discovery requests. FINRA also found that MSDW failed to provide arbitration claimants with updates to a supervisory manual in discovery from late 1999 through the end of 2005. MS&Co. agreed, without admitting or denying these findings, to establish a \$9.5 million fund for the benefit of potentially affected arbitration claimants. In addition, MS&Co. was censured and agreed to pay a \$3 million regulatory fine and to retain an independent consultant to review its procedures for complying with discovery requirements in arbitration proceedings relating to its retail brokerage operations.
- On October 10, 2007, MS&Co. became the subject of an Order Instituting Administrative and Cease-And-Desist Proceedings ("October 2007 Order") by the SEC. The

October 2007 Order found that, from 2000 until 2005, MS&Co. and MSDW failed to provide to their retail customers accurate and complete written trade confirmations for certain fixed income securities in violation of the Exchange Act and MSRB rules. In addition, MS&Co. was ordered to cease and desist from committing or causing any future violations, and was required to pay a \$7.5 million penalty and to retain an independent consultant to review MS&Co.'s applicable policies and procedures. MS&Co. consented to the issuance of the October 2007 Order without admitting or denying the SEC's findings.

- On December 18, 2007, MS&Co. became the subject of an Order Instituting Administrative Cease-and-Desist Proceedings ("December 2007 Order") by the SEC. The December 2007 Order found that, from January 2002 until August 2003, MSDW (1) failed to reasonably supervise four Financial Advisors, with a view to preventing and detecting their mutual fund market-timing activities and (2) violated the Investment Company Act of 1940 by allowing multiple mutual fund trades that were placed or amended after the close of trading to be priced at that day's closing net asset value. The December 2007 Order also found that, from 2000 through 2003, MSDW violated the Exchange Act by not making and keeping records of customer orders placed after the market close and orders placed for certain hedge fund customers in variable annuity sub-accounts. Without admitting or denying the SEC's findings, MS&Co. agreed to a censure, to cease and desist from future violations of the applicable provisions, to pay a penalty of approximately \$11.9 million, to disgorge profits related to the trading activity (including prejudgment interest) of approximately \$5.1 million and to retain an independent distribution consultant.
- In May 2005, MS&Co. and MSDW discovered that, from about January 1997 until May 2005, their order entry systems did not check whether certain secondary market securities transactions complied with state registration requirements known as Blue Sky laws. This resulted in the improper sale of securities that were not registered in 46 state and territorial jurisdictions. MS&Co. and MSDW conducted an internal investigation, repaired system errors, self-reported the problem to all affected states and the NYSE, identified transactions which were executed in violation of the Blue Sky laws, and offered rescission to affected customers. MS&Co. settled the state regulatory issues in a multi-state settlement with the 46 affected state and territorial jurisdictions. Under the settlement, MS&Co. consented to a cease and desist order with, and agreed to pay a total civil monetary penalty of \$8.5 million to be divided among, each of the 46 state and territorial jurisdictions. The first order was issued by Alabama on March 19, 2008, and orders are expected to be issued by subsequent states over the coming months.
- On August 13, 2008, MS&Co. agreed on the general terms of a settlement with the NYAG and the Office of the Illinois Secretary of State, Securities Department ("Illinois") (on behalf of a task force of the North American Securities Administrators Association ("NASAA")) with respect to the sale of auction rate securities ("ARS"). MS&Co. agreed, among other things, to repurchase at par approximately \$4.5

billion of illiquid ARS held by certain clients of MS&Co. which were purchased prior to February 13, 2008. Additionally, MS&Co. agreed to pay a total fine of \$35 million. Final agreements were entered into with the NYAG on June 2, 2009 and with Illinois on September 17, 2009. The Illinois agreement serves as the template for agreements with other NASAA jurisdictions.

- On November 13, 2008, in connection with the settlement of a civil action arising out of an investigation by the SEC into CGM's underwriting, marketing and sale of ARS, CGM, without admitting or denying the allegations of the SEC's complaint, except as to those relating to personal and subject matter jurisdiction, which were admitted, consented to the entry in the civil action of a Judgment As To Defendant Citigroup Global Markets Inc. ("November 2008 Judgment"). Thereafter, on December 11, 2008, the SEC filed its civil action in the federal district court for the Southern District of New York ("Court"). The November 2008 Judgment, which was entered on December 23, 2008 (i) permanently enjoined CGM from directly or indirectly violating section 15(c) of the Exchange Act; (ii) provides that, on later motion of the SEC, the Court is to determine whether it is appropriate to order that CGM pay a civil penalty pursuant to section 21(d)(3) of the Exchange Act, and if so, the amount of the civil penalty; and (iii) ordered that CGM's Consent be incorporated into the November 2008 Judgment and that CGM comply with all of the undertakings and agreements in the Consent, which include an offer to buy back at par certain ARS from certain customers. The SEC's complaint alleged that (1) CGM misled tens of thousands of its customers regarding the fundamental nature of and risks associated with ARS that CGM underwrote, marketed and sold; (2) through its financial advisers, sales personnel and marketing materials, CGM misrepresented to customers that ARS were safe, highly liquid investments comparable to money market instruments; (3) as a result, numerous CGM customers invested in ARS funds they needed to have available on a short-term basis; (4) in mid-February 2008, CGM decided to stop supporting the auctions; and (5) as a result of the failed auctions, tens of thousands of CGM customers held approximately \$45 billion of illiquid ARS, instead of the liquid short-term investments CGM had represented ARS to be. CGM reached substantially similar settlements with the NYAG and the Texas State Securities Board ("TSSB"), although those settlements were administrative in nature and neither involved the filing of a civil action in state court. The settlements with the NYAG and the TSSB differed somewhat from the settlement with the SEC in that the state settlements (a) made findings that CGM failed to preserve certain recordings of telephone calls involving the ARS trading desk; and (b) required CGM to refund certain underwriting fees to certain municipal issuers. In addition, as part of the settlement with New York, CGM paid a civil penalty of \$50 million. CGM also agreed in principle to pay to states other than New York with which it enters into formal settlements a total of \$50 million. CGM paid \$3.59 million of this \$50 million to Texas as part of the settlement with that state. CGM expects it will reach settlements with the remaining states.
- On March 25, 2009, MS&Co. entered into a LAW with FINRA. FINRA found that, from 1998 through 2003,

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

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

## Other Financial Industry Activities and Affiliations

Morgan Stanley Parent 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 in some investment advisory programs.

- Certain regulatory requirements may limit MSSB's ability to execute transactions through alternative execution services (e.g., electronic communication networks and crossing networks) owned by MSSB, MS&Co. 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 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 Inc. and its wholly owned subsidiary Morgan Stanley Services Company 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 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 from your Financial Advisor.

*See Item 6.B above, for a description of Conflicts of Interest.*

## **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 strategy are suitable investments for you.

Your Financial Advisor is then responsible for reviewing your account on an ongoing basis. If you have elected Select UMA Financial Advisor Discretion, your Financial Advisor may (a) select Sub-Managers or Investment Products for you, (b) change Sub-Managers or Investment Products and (c) (if you have also elected the “custom” version of the Model) define the Model asset allocation and adjust the asset allocation for you.

In the Select UMA program, the Overlay Manager and Consulting Group’s operations department conducts various checks on a periodic basis (e.g. identifying and reviewing accounts with a high cash balance, and inactive accounts).

*See Item 4.A above for a discussion of account statements and periodic reviews provided for your account.*

## **Client Referrals and Other Compensation**

*See “Payments from Investment Managers” and “Payments from Mutual Funds” in Item 6.B above.*

Our Professional Alliance Group program allows certain unaffiliated third parties to refer clients to MSSB. If the client invests in an investment advisory program, we pay the third party an ongoing referral fee (generally about 25% of the portion of the client fee that we would otherwise allocate to the Financial Advisor). We 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 A**

### **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 (e.g., 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 sometime after the Effective Dates):

- 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.

<b>Fund</b>	<b>Advisory Fee</b>	<b>Distribution and Service Fees</b>	<b>Other Expenses</b>	<b>Total Annual Fund Operating Expenses</b>	<b>Total Annual Fund Operating Expenses After Fee Waivers and/or Expense Reimbursements</b>
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%

## **Exhibit B**

### **GIS in Select UMA Methods of Analysis and Investment Strategies**

#### **1. Applied Equity Advisors**

- ***Global Core Equity Strategy:*** Seeks to achieve long term compounding of returns by investing primarily in global, mid-large capitalization equities that (i) appear attractive on a valuation basis and (ii) could demonstrate above-average appreciation potential. This is pursued through a series of quantitative models with a fundamental overlay to identify opportunities. As a majority of a portfolio's return can be defined by its common factors risks, the team believes in a top-down quantitative approach. It uses specific equity selections to maximize its desired country, style and sector distribution.
- ***Global Concentrated Equity Strategy:*** Seeks to achieve long term compounding of returns by investing primarily in a limited number of global, mid-large capitalization equities that (i) appear attractive on a valuation basis and (ii) could demonstrate above-average appreciation potential. This is pursued through a series of quantitative models with a fundamental overlay to identify opportunities. As a majority of a portfolio's return can be defined by its common factors risks, the team believes in a top-down quantitative approach. It uses specific equity selections to maximize its desired country, style and sector distribution.
- ***US Core Equity Strategy:*** Seeks to achieve long term compounding of returns by investing primarily in mid-large capitalization equities that (i) appear attractive on a valuation basis and (ii) could demonstrate above-average appreciation potential. This is pursued through a series of quantitative models with a fundamental overlay to identify opportunities. As a majority of a portfolio's return can be defined by its common factors risks, the team believes in a top-down quantitative approach. It uses specific equity selections to maximize its desired country, style and sector distribution.

#### **2. Fundamental Equity Advisors**

- ***Fundamental All-Cap Equity Portfolio:*** This is an actively managed strategy that seeks to outperform the Russell 3000 Index with a focus on risk management and capital preservation. It is generally holds 25-60 stocks across a wide range of market capitalizations. American Depositary Receipts (ADRs), exchange-traded funds (ETFs) and/or closed-end funds may also be used. This portfolio may also include Master Limited Partnerships (MLPs), which are treated differently than stocks for tax purposes. The team seeks to identify undervalued equity opportunities using a rigorous fundamental approach to security selection. The team manages equity portfolios by focusing on companies possessing strong free cash flow, attractive valuations, profit margin opportunities and changing internal dynamics. Individual security selection is based on, but not limited to, a careful analysis of a company's financial flexibility, earnings quality, valuation, business model and competitive position. The team also evaluates broader industry trends, relative growth and current investor expectations, in an effort to determine a proposed investment's "margin of safety" and risk/reward profile. The team monitors risk at both the portfolio and individual security level, with a focus on bottom-up securities analysis.
- ***Fundamental All-Cap Equity Portfolio ex-MLPs Strategy:*** The team uses the same strategy and methods of analysis as in the Fundamental All-Cap Equity Portfolio, but does not invest in MLPs.
- ***Fundamental Small/Mid-Cap Core Strategy:*** This is an actively managed strategy that seeks to outperform the Russell 2500 Index with a focus on risk management. It generally holds 25-60 stocks with market capitalizations ranging from \$150 million to \$15 billion. American Depositary Receipts (ADRs), Exchange-Traded Funds (ETFs) and/or closed-end funds may also be used. The team seeks to identify undervalued equity opportunities using a rigorous fundamental approach to security selection. The team manages equity portfolios by focusing on companies possessing strong free cash flow, attractive valuations, profit margin opportunities and changing internal dynamics. Individual security selection is based on, but not limited to, a careful analysis of a company's financial flexibility, earnings quality, valuation, business model and competitive position. The team also evaluates broader industry trends, relative growth and current investor expectations, in an effort to determine a proposed investment's "margin of safety" and risk/reward profile. The team monitors risk at both the portfolio and individual security level, with a focus on bottom-up securities analysis.

#### **3. Opportunistic Equity**

- ***Opportunistic US Equity Strategy:*** This is an actively managed US equity strategy that seeks to outperform the S&P 500 Index. The portfolio primarily invests in mid and large capitalization US equities and exchange-traded funds ("ETFs"). The product includes a core component that is implemented using individual equity securities (30-35 names) and an overlay component that is implemented using ETFs. The core component is expected to have a slight quality-bias

relative to the S&P 500 over a market cycle, but will be active from a sector allocation perspective. The ETF overlay allocation will be driven by our proprietary Alpha Driver research process. This process identifies factors, styles and sectors that we expect to outperform the broad market over the next 12 months.