

# Form ADV Program Brochure Morgan Stanley Smith Barney LLC

Institutional Services Program

**January 22, 2015**

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**This Wrap Fee Program Brochure provides information about the qualifications and business practices of Morgan Stanley Smith Barney LLC (“MSSB”). If you have any questions about the contents of this Brochure, please contact us at (914) 225-1000. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about MSSB also is available on the SEC’s website at [www.adviserinfo.sec.gov](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 28, 2013. For more details on any particular matter, please see the item in this ADV Brochure referred to in the summary below.

**Ownership of MSSB.** 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. (Item 4)

**Discretionary Services for Participant-Directed Retirement Plans.** MSSB offers discretionary consulting services for participant-directed defined contribution plans in which MSSB is responsible for the selection of investment options and asset allocation models. (Item 4.A)

**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)

**Fees.** We list fees for different services and payment methods including those for participant-directed defined contribution plan services. (Item 4.A)

**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 (collectively, the “Sweep Banks”) or
- money market mutual funds. These money market funds are managed by Morgan Stanley Investment Management Inc. or another MSSB affiliate.

The Sweep Banks are currently Morgan Stanley Bank, N.A. and/or Morgan Stanley Private Bank, National Association.

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)

**Due Diligence.** We list details on the mutual funds reviewed by Graystone Consulting. (Item 6.A)

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## 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.

Prior to June 28, 2013, MSSB was owned by a joint venture company which is 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.

In 2012, MSSB merged the advisory programs previously provided by Morgan Stanley & Co. Incorporated (now, Morgan Stanley & Co. LLC) (“MS&Co.”) and Smith Barney and/or Citigroup Global Markets Inc. (“CGM”). Unless clients have appointed another custodian, all clients’ assets are held in custody at MSSB (except for “sweep” assets, which are held in custody at the Sweep Banks pursuant to the Bank Deposit Program). Please see Item 4.C (Services, Fees and Compensation -- Additional Fees – Cash Sweeps -- Bank Deposit Program) below, for more information.

MSSB offers clients (“you”, “your” or “Client”) 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.)

### A. General Description of Programs and Services

MSSB focuses on providing a wide range of investment consulting services to institutional and high net worth individual clients, including (i) assistance in developing investment policy statements, (ii) asset allocation, (iii) investment manager, mutual fund, commingled fund, exchange traded fund (“ETF” and together with commingled funds and mutual funds, “Funds”) and alternative investment research, (iv) performance reporting and (v) custody services. These services are delivered through a select group of institutional consulting teams located across the country that have significant experience serving the investment advisory needs of institutional as well as high net worth individual clients and are supported by a management team dedicated to institutional consulting. Clients include corporations, Taft-Hartley plans, foundations and endowments public and private defined benefit plans, 401(k) plan sponsors, family offices and high net worth individuals.

MSSB and its Consulting Group business division (“CG”) administer and oversee the Institutional Services Program (“IS”) as discussed. This section discusses the various general matters that apply to the IS program. MSSB and its Financial Advisors may also provide other services in connection with the described program. Any such services will be specified in the investment advisory agreement between MSSB and you (See “Account Opening” below). In addition, the guidelines to the programs and services are subject to change without notice. You should consult with your Financial Advisor for further details.

### Institutional Services Program

MSSB offers the following institutional consulting services to its clients:

***Assistance in the Preparation of Investment Objectives and Policies.*** MSSB shall assist the Client in Client’s review, evaluation and preparation of investment policies and objectives for the account. As set forth in “Performance Reporting” below, MSSB shall assist the Client in developing benchmarks for the performance of the account. MSSB also will provide the performance of the total account so as to assist the Client with the ability to determine progress toward investment objectives. Your Financial Advisor has been retained as a non-discretionary investment consultant. Accordingly, the Client shall be responsible for monitoring compliance with their investment policies and guidelines.

***Asset Allocation.*** Your Financial Advisor will review your asset allocation and will make asset allocation recommendations in accordance with your investment goals.

***Investment Searches.*** Your Financial Advisor will assist you in identifying and recommending investment managers and Funds (“Investment Products”). These recommendations are based either on (i) MSSB’s Global Investment Manager Analysis Group (using different methods to evaluate investment managers and Funds -- analysis on investment managers is provided through MSSB’s Fiduciary Services (“FS”) and Consulting and Evaluation Services (“CES”) programs) or (ii) analysis provided by MSSB’s Graystone Consulting business unit (“Graystone”). Graystone analysis conducted on Managers and Funds. Graystone analysis on managers is conducted through its Manager Assessment Program, a proprietary investment management scoring system that assesses investment manager products in that database. Graystone teams conduct further analysis in an effort to identify managers for clients. See Item 6 below for more details.

Depending on applicable legal and regulatory requirements, clients may invest in certain affiliated and/or unaffiliated alternative investment vehicles (such investments, together with Investment Products, “Investment Options”).

***Non-Researched Managers.*** Clients also may select investment managers outside of those covered by MSSB’s Global Investment Manager Analysis Group, known as “GIMA” (formerly known as the CG Investment Advisor Research Group (“CG IAR” or “IAR”)), or Graystone analysis. Such outside managers, if qualified, will be offered through MSSB’s Investment Management Services Program (“IMS”). MSSB

does not evaluate or make any representations concerning such investment managers and shall not assume any liability for any loss, claim, damage or expense attributable to the client's selection of such managers.

For more information about FS, CES, and IMS or any other investment advisory services offered by MSSB, as well as assistance in determining which service may be best suited to your needs and objectives, please contact your Financial Advisor or refer to [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV).

**Performance Reporting.** MSSB provides clients with customized performance reports that assess portfolio performance relative to benchmarks. The reports may include comparisons to recognized benchmarks and market segments.

**Custody and Statements.** If selected by you, MSSB may serve as the custodian of all cash, securities and other assets held in the portfolio and credit the portfolio with dividends and interest paid on securities held and with the principal paid on called or matured securities in the portfolio. You will be provided with written confirmation of securities transactions and account statements at least quarterly.

## For Participant-Directed Defined Contribution Plans

MSSB also offers both -discretionary investment-consulting services and discretionary services for participant directed defined contribution plans ("DC Plans").

### **Non-discretionary Investment Consulting for Participant-Directed Defined Contribution Plans.**

Through this non-discretionary program, MSSB offers initial and ongoing investment consulting services to Sponsors, including investment policy statement review, asset style analysis, mutual fund and ETF search and selection and performance measurement.

**Investment Consulting Fund Screening Program.** For participant-directed retirement plan sponsor clients, MSSB offers the DC Investment Consulting Fund Screening Program which is explained further in Item 6A below.

**Risk-Based Models.** In addition to providing fund screening services as explained further in Item 6A below, MSSB may provide risk-based asset allocation advice to retirement plans that hold assets in custody at a custodian other than MSSB. If requested, MSSB will provide plan sponsor clients with certain strategic asset allocation models ("model portfolios") that are prepared by MSSB's Global Investment Committee (the "GIC"). A plan sponsor client availing of the model portfolio service may then make available to participants certain groupings of Funds that have already been approved by the client and that are consistent with the components of the model portfolios selected by the client. As the services are non-discretionary, the client must make the final choice of Funds to populate the model portfolio.

It will be the client's responsibility to ensure model recommendations can be implemented within their recordkeeping platform. MSSB may assist in determining the capabilities of the client's recordkeeping platform; however it will be the ultimate responsibility of the client to ensure any recommendations are implemented and offered to participants in a manner that is consistent with the client's overall goals and objectives.

MSSB will provide the client with performance reporting for such models which will include model performance comprised of the fund performance within the model. MSSB will also provide the client with any changes/updates made to the asset allocation percentages within such models within a reasonable period of time however no more than one calendar quarter.

The client will be responsible for making any updates or changes to such models with its retirement plan provider. If requested, MSSB may provide education to plan participants in regard to risk tolerance through various approved educational pieces, however any such education does not represent any attempt by MSSB to use discretion or extend its fiduciary liability under the program client agreement.

**Administrative Services.** MSSB may also assist the retirement plan and other institutional clients with certain administrative functions as described below. These are not investment advisory services and MSSB does not assume status as a fiduciary under ERISA, the Investment Advisers Act of 1940 or any other applicable law or regulation in performing these services. MSSB provides the following administrative services:

- **Board Education/Asset Classification** – MSSB shall provide the Client with general financial and investment information relating to such concepts as diversification and asset classification with respect to various asset classes and historic rates of return.
- **Employee Education** – MSSB shall provide the Client and/or its employees with general financial and investment information relating to such concepts as diversification, asset allocation and historic rates of return.
- **Record Keeper Search Assistance.** MSSB may assist plan sponsors in searches to retain third party record keepers. This service may be provided to existing clients of MSSB or on a one-time basis to plans that are not MSSB. In doing so, MSSB will:
  - 1) evaluate the plan sponsor's needs,
  - 2) assist the plan sponsor in preparing a Request for Proposal ("RFP"),
  - 3) assist the plan sponsor in soliciting and reviewing responses from potential providers,
  - 4) assist the plan sponsor in selecting finalists, and
  - 5) provide the plan sponsor with an executive summary report to assist the plan sponsor in making its final decision.

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

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

#### ***Discretionary Services for Participant-Directed Defined Contribution Plans***

MSSB also offers through qualified Corporate Retirement Directors and for eligible clients, discretionary institutional consulting services for participant-directed plans whereby MSSB is responsible for the discretionary selection of investment options and investment management of asset allocation models in accordance with the client's investment policy statement. Such discretion is exercised utilizing the resources of MSSB's Global Investment Manager Analysis Group and Global Investment Committee. A MSSB financial adviser will manage the overall investment process including decisions for fund selection, review and termination, asset allocation model services and comprehensive monitoring of the Plan's investments. In addition to discretionary investment management, clients may receive non-discretionary administrative services which include assistance with the development of an investment policy, board education, asset classification, provider search assistance, fee and service benchmarking and employee education.

If the Client chooses to provide Plan participants with asset allocation model assistance, MSSB, in addition to fund selection and monitoring, will provide either strategic risk-based models or target date model portfolios, collectively, the "Models". In both cases, the Models are developed by Morgan Stanley's Global Investment Committee, and are not subject to customization by the Client. Only MSSB Approved Funds will be permitted to populate these models.

**Risk-Based Models.** MSSB will present the Client with eight separate risk-based models, as described in the previous section, of which the client must select at least three Models to be made available to the Plan's participants, ranging from most conservative to more aggressive. The Client will be solely responsible for selecting at least three models and with each of the following risk levels represented: conservative, moderate and aggressive.

**Target Date Models.** MSSB will present three separate target-date glidepath models to the client. These glidepaths offer the

option of i) greater hedge against longevity risk and shortfall risk, ii) greater hedge against inflation risk and market risk, or iii) a balance between inflation risk and longevity risk. The Client will be solely responsible for selecting one of the models to offer the Plan's participants. Once the Client has selected a target date model, MSSB will construct the model by populating each asset class comprising the Model with the MSSB Approved Funds in a manner consistent with the components of the Model.

It will be the responsibility of MSSB to ensure that the Models can be implemented within their recordkeeping platform. MSSB will be responsible in determining the capabilities of the clients recordkeeping platform and it would be the ultimate responsibility of MSSB to ensure any recommendations are implemented and offered to participants in manner that is consistent with the clients overall goals and objectives.

Risk-Based Models are tools used to assist the plan participants in achieving asset allocation goals. These models are not investment products sponsored by MSSB. Client may not make use of any branding associated with MSSB, the GIC or any other affiliate when describing the model portfolio. Termination of contract or model services will require the discontinuance of use of the models.

Target Date Models are tools used to assist the plan participants in achieving asset allocation goals. These models are not investment products sponsored by MSSB. Client may not make use of any branding or other proprietary information associated with MSSB, the GIC or any other affiliate when describing the model portfolio. Termination of contract or model services will require the discontinuance of use of the models.

MSSB will provide the Client with performance reporting for the Models which will include model performance comprised of the fund performance within the Model. MSSB will also provide the Client and Recordkeeper with any changes/updates made to the asset allocation percentages within the Models within a reasonable period of time however no more than one calendar quarter.

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

The performance reporting service enables the client to receive from MSSB periodic reports containing the Client's historical performance information as reported by the applicable

Performance Reporting AI. Client may also receive composite reports that show historical performance of alternative investments as reported by the Performance Reporting AI, along with historical or other performance information on other investments that were/are acquired through MSSB, are held in custody by MSSB or are followed by MSSB research.

The performance information provided in a periodic performance review is based on information provided to MSSB by the Performance Reporting AI and is not independently verified by MSSB. MSSB shall not be liable for any misstatement or omission made by the Performance Reporting AI nor for any loss, liability, claim, damage or expense arising out of such misstatement or omission.

This reporting service is not intended to constitute investment advice or a recommendation by MSSB of any alternative investment and MSSB is not evaluating the appropriateness of the initial investment or the continued investment in the alternative investments reported on as part of this service. In addition, the service does not constitute, create or impose a fee-based brokerage relationship, a fiduciary relationship or an investment advisory relationship under the Investment Advisers Act of 1940, as amended, with regard to the investments covered under this service. If the Client is an employee benefit plan or is otherwise subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), MSSB is **NOT** acting as a fiduciary (as defined in ERISA) with the respect to the provision of these reporting services as described herein). MSSB is not responsible for and will not provide tax reporting with respect to any alternative investment reported on under this service.

MSSB does not normally maintain custody of alternative investments as reported by on under this service and therefore such investments are not included under MSSB's SIPC coverage.

The fee charged to the client for this service does not include any fee or charge for other services in connection with the client's participation in any alternative investment. Clients are solely responsible for such arrangements.

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

## **General Description of All Programs**

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

### **Account Opening**

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

### **Restrictions**

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

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

Unless you have appointed another custodian in a program where you may do so, MSSB is the custodian and provides you with written confirmation of securities transactions, and account statements at least quarterly. You may 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. MSSB services are also provided to clients who engage third-party custodians.

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

## **Consulting Group Trust Services**

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

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

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

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

## **Risks**

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

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

**Risks Relating to Money Market Funds.** An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, there is no assurance that will occur, and it is possible to lose money if the fund value per share falls. Moreover, in some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings are liquidated and distributed to the fund's shareholders. This liquidation process could take up to one month or more. During that time, these funds would not be available to you to support purchases, withdrawals and, if applicable, check writing or ATM debits from your account.

**Risks Relating to Master Limited Partnerships.** Master Limited Partnerships ("MLPs") are limited partnerships or limited liability companies whose interests (limited partnership or limited liability company units) are generally traded on securities exchanges like shares of common stock. Investments in MLPs entails different risks, including tax risks, than is the case for other types of investments.

Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in these sectors (including commodity pricing risk, supply and demand risk, depletion risk and exploration risk). Depending on the ownership vehicle, MLP interests are subject to varying tax treatment. Please see "Tax and Legal Considerations" below and any mutual fund or ETF prospectus, for more information. You may obtain any mutual fund or ETF prospectus by asking your Financial Advisor.

**Risks Relating to Mutual Funds, Commingled Funds and ETFs that Primarily Invest in Master Limited Partnerships.** In addition to the risks outlined above relating to Master Limited Partnerships, mutual funds, commingled funds and ETFs that primarily invest in MLPs generally accrue deferred tax liability. The fund's deferred tax liability (if any) is reflected each day in the fund's net asset value. As a result, the fund's total annual operating expenses may be significantly higher than those of funds that do not primarily invest in Master Limited Partnerships. Please see the fund prospectus for additional information.

**Risks Relating to Mutual Funds, Commingled Funds and ETFs that Pursue Complex or Alternative Investment Strategies or Returns.** These mutual funds, commingled funds and ETFs may employ various investment strategies and techniques for both hedging and more speculative purposes such as short selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. Alternative investment strategies are not suitable for all investors.

You should also keep in mind that while mutual funds, commingled funds and ETFs may at times utilize non-traditional investment options and strategies, they should not be equated with unregistered privately offered alternative investments. Because of regulatory limitations, mutual funds and ETFs that seek alternative-like investment exposure must utilize a more limited investment universe. As a result, investment returns and



portfolio characteristics of alternative mutual funds may vary from traditional hedge funds pursuing similar investment objectives. They are also more likely to have relatively higher correlation with traditional market returns than privately offered alternative investments. Moreover, traditional hedge funds have limited liquidity with long “lock-up periods allowing them to pursue investment strategies without having to factor in the need to meet client redemptions. On the other hand, mutual funds typically must meet daily client redemptions. This differing liquidity profile can have a material impact on the investment returns generated by a mutual fund pursuing an alternative investing strategy compared with a traditional hedge fund pursuing the same strategy.

Non-traditional investment options and strategies are often employed by a portfolio manager to further a fund’s or ETFs investment objective and to help offset market risks. However, these features may be complex, making it more difficult to understand the fund’s or ETF’s essential characteristics and risks, and how it will perform in different market environments and over various periods of time. They may also expose the fund or ETF to increased volatility and unanticipated risks particularly when used in complex combinations and/or accompanied by the use of borrowing or “leverage”.

***Risks Relating to Alternative Investments.*** Alternative investments have different features and risks from other types of investment products. As further described in the offering documents of any particular alternative investment, an investment in alternative investments can be highly illiquid, is speculative and not suitable for all investors. For example, alternative investment products may place substantial limits on liquidity and the redemption rights of investors, including only permitting withdrawals on a limited periodic basis and with a significant period of notice and may impose early withdrawal fees. Investing in alternative investments is intended for experienced and sophisticated investors only who are willing to bear the high economic risks of the investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include: loss of all or a substantial portion of the investment due to leveraging, shortselling, or other speculative practices; lack of liquidity, in that there may be no secondary market for the fund and none expected to develop; volatility of returns; restrictions on transferring interests in the fund; potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; absence of information regarding valuations and pricing; complex tax structures and delays in tax reporting; less regulation and higher fees than mutual funds; and advisor risk. Alternative investment products may also have higher fees (including multiple layers of fees) compared to other types of investments.

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

***Risks Relating to Differing Classes of Securities.*** Different classes of securities have different rights as creditor if the issuer files for bankruptcy or reorganization. For example,

bondholders’ rights generally are more favorable than shareholders’ rights in a bankruptcy or reorganization.

## **Tax and Legal Considerations**

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

Investment in MLPs entails different risks, including tax risks, than is the case for other types of investments. Investors in MLPs hold “units” of the MLP (as opposed to a share of corporate stock) and are technically partners in the MLP. Holders of MLP units are also exposed to the risk that they will be required to repay amounts to the MLP that are wrongfully distributed to them. Almost all MLPs have chosen to qualify for partnership tax treatment. Partnerships do not pay U.S. federal income tax at the partnership level. Rather, each partner of a partnership, in computing its U.S. federal income tax liability, must include its allocable share of the partnership’s income, gains, losses, deductions, expenses and credits. A change in current tax law, or a change in the business of a given MLP, could result in an MLP being treated as a corporation for U.S. federal income tax purposes, which would result in such MLP being required to pay U.S. federal income tax on its taxable income. The classification of an MLP as a corporation for U.S. federal income tax purposes would have the effect of reducing the amount of cash available for distribution by the MLP and could cause any such distributions received by the an investor to be taxed as dividend income. If you have any questions about the tax aspects of investing into an MLP, please discuss with your tax advisor.

Investors in MLP portfolios will receive a Schedule K-1 for each MLP in the portfolio, so they will likely receive numerous Schedule K-1s. Investors will need to file each Schedule K-1 with their federal tax return. Also, investors in MLP portfolios may be required to file state income tax returns in states where the MLPs in the portfolio operate. Since some Schedule K-1s may not be provided until after the due date for the federal or state tax return, investors in MLP portfolios may need to obtain an extension for filing their federal or state tax returns. Please discuss with your tax advisor how an investment in MLPs will affect your tax return.

Tax laws impacting MLPs may change, and this could impact any tax benefits that may be available through investment in an MLP portfolio.

## Fees

### Fees for the Institutional Services Program

**Asset Based Fee.** The fees for IS are negotiable and may vary based on a number of factors such as account size, account type, historical or projected nature of trading for the account, and the number and range of advisory services to be provided to the account. The fee schedule for the IS program is as follows:

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

**Hard Dollar Fee.** In addition, clients may select any of the services listed below. The fees are negotiable subject to approval from management and an overall minimum engagement fee of \$15,000.

- Historical analysis
- Investment policy statements
- Strategic asset allocation studies
- Active asset allocation only
- Asset liability analyses -Clients may contract directly with third party vendors for an asset liability analyses in which case MSSB and Graystone will not commit to this service contractually or charge an additional fee.
- Manager searches
- Performance reporting services

### Discretionary Services for Participant-Directed Defined Contribution Plans

The fees for Discretionary Services for participant-directed defined contribution plans are negotiable and are typically subject to a \$5 million asset minimum. Fees are generally charged quarterly in arrears and are based on a number of factors including the specific services to be provided, which may result in a particular client paying a fee greater than the standard fees.

### Full Discretion Services for Participant-Directed Defined Contribution Plans

When MSSB takes full discretion which includes discretion over manager selection, review and termination, model portfolios and comprehensive monitoring of the client's portfolio the standard asset based fee schedule is as follows:

- For accounts with \$5-\$10 million in assets the maximum fee is 0.75% and the minimum fee is 0.50%.
- For accounts with greater than \$10 million in assets the following fee schedule applies:

### Partial Discretion Services For Participant-Directed Defined Contribution Plans

When MSSB takes partial discretion which includes either (but not both):

1. Discretion over manager selection, review and termination, and comprehensive monitoring of the client's funds; or
2. Asset allocation models

The standard asset based fee schedule is as follows

For accounts with \$5-\$10 million in assets the maximum fee is 0.70% and the minimum fee is 0.45%.

For accounts with greater than \$10 million in assets the following fee schedule applies:

Account Asset Value	Annual Fee
On the first \$5,000,000	0.70%
On the next \$5,000,000	0.46%
On the next \$15,000,000	0.29%
On the next \$25,000,000	0.17%
On the next \$50,000,000	0.09%
On the next \$100,000,000	0.05%
Over \$200,000,000	negotiable

**Hard Dollar Fee.** In addition, clients may select to pay fees for discretionary services as a hard dollar fee based on equivalent asset based fee parameters described above. The fees are negotiable subject to approval from MSSB management and an overall minimum engagement fee of \$25,000.

**Fees for Alternative Investments Performance Reporting.** The fees for Alternative Investments Performance Reporting are negotiable and for purposes of calculating the fees for this service, the market value of the alternative investments shall be based on the then currently available market value, estimated or actual for purposes of calculating fees for this service, as reported by Performance Reporting AI and shall be payable in advance. MSSB does not independently verify such information. The fee shall not be charged on committed, but not yet funded, investments. The fee on the first \$5 million of assets

is 0.25%; the fee on the next \$5 million of assets is 0.11%; the fee on the next \$15 million of assets is 0.10%; the fee on the next \$25 million of assets is 0.09%; the fee on the next \$50 million of assets is 0.05%; the fee on the next \$100 million of assets is 0.045%; and fee on assets in excess of \$200 million is negotiable.

### Participant-Directed Defined Contribution Plans

**Asset Based Fee.** The fees for traditional Institutional Consulting Services are negotiable and subject to a minimum fee per relationship. Fees may be charged quarterly and in advance or in arrears and may be based on a number factors. Factors include the size of the account and the number and range of advisory and client related services to be provided. The standard asset based fee schedule for participant directed DC plans is as follows:

For accounts with \$1-\$5 million in assets the maximum fee is 0.60% and the minimum fee is 0.50%.

For accounts with \$5-\$10 million in assets the maximum fee is 0.60% and the minimum fee is 0.40%.

For accounts with greater than \$10 million in assets the following fee schedule applies with a minimum fee of \$25,000.

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

**Hard Dollar Fee.** In addition, the client may select any of the following services subject to the minimum fees set forth and an overall minimum engagement fee of \$25,000. Fees may be charged in arrears or in advance. For investment policy statements the minimum fee is \$5,000 initially and \$2,500 for updates. For asset allocation analysis the minimum fee is \$7,500 initially and \$3,000 for updates. For mutual fund searches the minimum fee is \$5,000. For performance reporting the fee is \$2,000 to \$5,000 per fund charged in the form of an annual retainer only. For generic employee education the fee is \$2,500 per day (please note that participant education is not intended to be a stand-alone service and will be offered in addition to a full consulting assignment. Employee education can be included as part of the overall asset-based fee or separately at the \$2,500 per day rate).

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

- **Provider Search Assistance Fee.** For single service engagements, a plan can be charged a one-time fee of \$5,000 - \$30,000 which will be billed upon completion of the service. For on-going consulting engagements, Provider Search Assistance fees may be charged in addition to the overall institutional services asset-based and/or hard dollar fee, as listed above.
- **Fee and Services Benchmarking Fee.** For single service engagements, a plan can be charged a one-time fee of \$3,500 - \$15,000 which will be billed upon completion of the service. For on-going consulting engagements, Fee Benchmarking fees may be charged in addition to the overall institutional services asset-based and/or hard dollar fee, as listed above.

**Manager Assessment Program ("MAP").** The Manager Assessment Program is usually made available as part of, and within the fee structure of, the Institutional Services program.

In certain instances, clients may engage MSSB to provide the Manager Assessment Program on a standalone basis, in which case the schedule of fees shall be 1.35% on the first \$5 million of assets; .80% on the next \$5 million of assets; .40% on the next \$15 million of assets; .30% on the next \$25 million of assets; .20% on the next \$50 million of assets and .10% on the next \$100 million of assets. Fees on assets in excess of \$200 million are negotiable. In such instances, the clients' fees to MSSB cover its services in reviewing and recommending investment managers as well as the custody of securities and trade execution. Clients bear the cost of commissions or other transaction charges with respect to securities trades directed by the investment manager to firms other than Citi or MSSB for execution. The client also pays separate fees to the investment manager employed. Transactions in fixed income and certain other securities may involve dealer mark-ups or mark-downs or other charges in addition to the asset-based fees. To the extent investment managers direct trades in such securities to MSSB for execution, Citi, MSSB and their affiliates may realize profits or losses in connection with such trades that are separate from or additional to the fees paid by the client but will not charge the client any mark-up or mark-down. See "Additional Fees (item 4C). MAP managers may enter into "prime brokerage" arrangements with MSSB and its affiliates; in which case such managers may pay additional compensation to MSSB and its affiliates in consideration for such services. However, clients of such managers will not be charged any amount in addition to the manager fee and the fees or commissions charged by MSSB.

### General Fee Information

Generally, fees for the programs described in this Brochure are based on the size of the account (assets under management) and are negotiable based on a number of factors including the type and size of the account and the range of services provided by MSSB. In special circumstances, and with the client's agreement, the fee charged to a client for an account may be more than the annual fees stated in the above section.

The fee is payable as described in the Client Agreement. Generally, unless specified to the contrary, for asset-based fees, the initial fee is due in full on the date you open your account at MSSB and is based on the market value of the account on that date. The initial fee payment covers the period from the opening date through (at your election) the last business day of the current quarter or the next full calendar quarter and is prorated accordingly. Thereafter, the fee is paid quarterly in advance based on the account's market value on the last business day of the previous calendar quarter and is due the following business day. Unless the client elects to hold assets in custody at an outside custodian, the Client Agreement authorizes us to deduct fees when due from the assets contained in the account. If client elects a third party custodian, the client has the option of paying us directly or we can bill the custodian. Unless stated otherwise, generally for hard dollar fees, fees will be payable in advance.

You may terminate participation in the programs described in this Brochure at any time by giving written notice to MSSB. MSSB may (but is not obligated to) accept an oral notice of termination from you in lieu of the written notice. If participation in any of the programs described in this Brochure is terminated, any advisory fees paid in advance will be refunded on a pro-rata basis.

***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 Department of Labor regulations under Section 408(b) (2) of ERISA, 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**

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

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

## **C. Additional Fees**

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

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

### **Funds in Advisory Programs**

Investing in mutual funds and ETFs (collectively, "Funds") may be more expensive than other investment options offered in your advisory account. In addition to our fee, you pay the fees and

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

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

**Expense Payments, Data Analytics and Administrative Service Fees.** MSSB receives expense payments and fees for data analytics, recordkeeping and related services, which are more fully described below. Administrative fees may be viewed in part as a form of revenue-sharing if and to the extent they exceed what the mutual fund would otherwise have paid for these services.

MSSB provides fund families or their affiliated service providers with opportunities to sponsor meetings and conferences and grants them access to our branch offices and Financial Advisors for educational, marketing and other promotional efforts. Fund representatives may work closely with our branch offices and Financial Advisors to develop business strategies and plan promotional and educational activities. In addition, MSSB typically receives payments from funds or their affiliates in connection with these promotional efforts to help offset expenses incurred for sales events and training programs as well as client seminars, conferences and meetings. Fund families independently decide what they will spend on these activities and may also invite our Financial Advisors to attend fund family sponsored events. Expense payments may include meeting or conference facility rental fees and hotel, meal and travel charges.

Certain fund families (referred to as "Global Partners" or "Emerging Partners") dedicate significant financial and staffing resources to these efforts and receive supplemental sales data analytics as well as additional opportunities to sponsor firm events and promote their funds to our Financial Advisors and clients. Global Partners commit \$550,000 per year for training and sales meeting expenses and pay a fee of \$200,000 per year for data analytics. Emerging Partners commit \$250,000 per year for training and sales expenses and pay a fee of \$100,000 per year for data analytics. These facts present a conflict of interest for MSSB and our Financial Advisors to the extent they lead us to focus on funds from those fund families, including our Global and Emerging Partners, that commit significant financial and staffing resources to promotional and educational activities instead of on funds from fund families that do not purchase sales data analytics or do not commit similar resources to these activities. In order to mitigate this conflict, Financial Advisors and their Branch Office Managers do not receive additional compensation for recommending fund families sponsored by our Global or Emerging Partners or any other fund families that provide significant sales and training support. Global and Emerging Partners may present a certain number of funds or

other products to MSSB's GIMA subject to a shorter timeline for GIMA to begin its review of such products if there is a backlog at the time the fund or product is being considered. However, products and funds offered by Global and Emerging Partners are subjected to the same GIMA due diligence process and standards as all other investment products and are not given preference in terms of approval by GIMA for offering in MSSB advisory programs.

MSSB selects the Global and Emerging Partners fund families based on a number of quantitative and qualitative criteria. Our Global Partners are denoted by an asterisk on the Revenue-Sharing Fund Families list available by going to our website, <http://www2.morganstanley.com/wealth/investmentsolutions/mutualfunds.asp> and clicking on "Important Information about Mutual Funds" – "Revenue Sharing Arrangements".

Fund family representatives are allowed to occasionally give nominal gifts to Financial Advisors, and to occasionally entertain Financial Advisors (subject to an aggregate entertainment limit of \$1,000 per employee per fund family 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 any sales target.

**Administrative Service Fees.** MSSB and/or its affiliates receive compensation from funds or their affiliated service providers for providing certain recordkeeping and related services to the funds. These charges are typically based upon the number or aggregate value of client positions and the levels of services provided. We process transactions with certain fund families on an omnibus basis, which means we consolidate our clients' trades into one daily trade with the fund, and therefore maintain all pertinent individual shareholder information to the fund. Trading in this manner requires that we maintain the transaction history necessary to track and process sales charges, annual service fees and deferred sales charges for each position as applicable, as well as other transaction details required for ongoing position maintenance purposes. For these services, funds pay up to 0.16% (\$16 per \$10,000) on fund assets held by non-retirement investors in the advisory program covered by this Brochure.

In addition to the omnibus accounting services that we provide for the funds, we are also responsible for delivery of disclosure documents; processing of dividend distributions; tax reporting functions on their behalf.

Notwithstanding the foregoing, MSSB does not receive such payments from mutual fund assets held by 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").

**Client selection of MSSB affiliated funds.** Where clients select to invest in mutual funds where the investment adviser is a MSSB affiliate, in addition to the program fee paid by clients, MSSB and its affiliates may also receive investment management fees and related administrative fees. Since the affiliated sponsor or manager receives additional investment

management fees and other fees, MSSB has a conflict to recommend MSSB affiliated mutual funds.

For more information, please refer to the document “Mutual Fund Share Classes and Compensation”, at [http://www2.morganstanley.com/wealth/investmentsolutions/pdfs/MF\\_share\\_classes.pdf](http://www2.morganstanley.com/wealth/investmentsolutions/pdfs/MF_share_classes.pdf) and also available from your Financial Advisor on request.

**Share classes.** Mutual fund companies typically offer different ways to buy mutual fund shares. In addition to the more broadly known retail share classes (A, B and C shares), fund companies have developed additional types of specialized share classes designed for specific advisory programs. If available, clients’ shares are converted into the share class required by the mutual fund for that type of account. Depending on the circumstances, clients’ shares are converted into a share class that has a lower or a higher expense ratio. Advisory share classes usually have a lower expense ratio than the share classes that MSSB previously offered in the program. However, we may continue to offer non-advisory share classes if, for example, there is no equivalent advisory share class available or we believe that the non-advisory share class is likely to be the most cost effective share class. Once we make an advisory share class available for a particular mutual fund, clients can only buy the advisory class shares (not the non-advisory class shares) of that mutual fund in the program.

If available, we (without notice to you) may convert any mutual fund in your IS Program account to a share class of the same mutual fund which is a load-waived or no-load share class such as an Institutional share or Financial Intermediary share, or to a share class that is available only to investment advisory clients (collectively, an “Investment Advisory Share”), to the extent available. On termination of your account, or the transfer of mutual fund shares out of your account into another account including a MSSB retail brokerage account, if, at the time of termination or transfer, your account includes Investment Advisory Shares or Managed Account Funds, 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 fund previously held in your account), or we may redeem these mutual fund shares. The non-advisory mutual fund share class generally has higher operating expenses than the corresponding Investment Advisory Share, which may negatively impact investment performance.

## Custody

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

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

## Cash Sweeps

Generally, some portion of your account will be held in cash. If MSSB acts as custodian for your account, it will effect “sweep” transactions of uninvested cash and allocations to cash, if any, in your account into:

- interest-bearing bank deposit accounts (“Deposit Accounts”) established under the Bank Deposit Program (“BDP”) or
- money market mutual funds (each, a “Money Market Fund” and, together with BDP Deposit Accounts, “Sweep Investments”). The 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.

You acknowledge that MSSB may with 30 days written notice (i) make changes to these sweep terms; (ii) make changes to the terms and conditions of any available sweep investment; (iii) change, add, or delete the products available as a sweep option; (iv) transfer your sweep investment from one sweep product to another.

Clients that are considered Retirement Plans or Coverdell Education Savings Accounts should read the Exhibit to this Brochure (“Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement”).

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

**Bank Deposit Program.** Through the Bank Deposit Program, Deposit Accounts are established for you at one or more of the following banks (individually and collectively, the “Sweep Banks”): (i) Morgan Stanley Bank, N.A. 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 website at



[www.morganstanley.com/wealth/services/bankdepositprogram.asp](http://www.morganstanley.com/wealth/services/bankdepositprogram.asp). We may amend the list of Sweep Banks at any time with 30 days written 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 remain un-invested or be invested in the BDP.

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

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

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

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

## **D. Compensation to Financial Advisors**

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

If you invest in one of the programs described in this Brochure, MSSB may charge a fee less than the maximum fee stated above. The amount of the fee you pay is a factor we use in calculating the compensation we pay your Financial Advisor. Therefore, Financial Advisors have a financial incentive not to reduce fees.

## Item 5: Account Requirements and Types of Clients

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

## Item 6: Portfolio Manager Selection and Evaluation

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

In IS we offer a wide range of investment products (including managers, mutual funds and ETFs) that we have selected and approved. This Item 6.A describes more generally how we select and terminate Investment Options from these programs. If managers have more than one strategy, we may include only some of those strategies in the programs described in this Brochure, may carry different strategies in different programs, and assign different statuses to different strategies. Please refer to the discussion in Item 4 A. for a complete description of the programs.

#### MSSB's Global Investment Manager Analysis Group

GIMA evaluates Investment Products. GIMA may delegate some or all of its functions to an affiliate or third party. Investment Products may only participate in the FS or CES programs if they are on GIMA's Focus List or Approved List discussed below. You may obtain these lists from your Financial Advisor. In each program, only some of the Investment Products may be available.

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

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

We automatically terminate Investment Products in the CES and FS programs if GIMA downgrades them to "Not Approved." We may terminate Investment Products from these programs for other reasons (i.e., 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 GIMA 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 GIMA may compare the manager's/Fund's reported performance with the performance of a cross-section of actual accounts calculated by GIMA. GIMA personnel may also interview the manager or Fund and its key personnel, and examine its operations. Following this review process, Investment Products are placed on the Focus List if they meet the required standards for Focus List status.

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

**Approved List.** The process for considering Investment Products for the Approved List is less comprehensive, and evaluates various qualitative and quantitative factors. These may include personnel depth, turnover and experience; investment process; business and organization characteristics; and investment performance. GIMA 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.) GIMA analysts analyze the information contained in the algorithm to gauge the completeness and consistency of the data which drive the rankings, and then send the manager or Fund additional information requests. GIMA then determines whether the Investment Product meets the standards for Approved List status. Furthermore, GIMA may evaluate an Investment Product under the evaluation process for the Focus List but then decide to instead put it on the Approved List.

GIMA 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, GIMA 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.** GIMA may determine that an Investment Product no longer meets the criteria under either evaluation process and therefore the Investment Product will no longer be recommended in MSSB investment advisory programs. We notify affected clients of these downgrades. You



cannot retain a downgraded manager or Fund in your accounts and must select a replacement from the Approved List or Focus List that is available in the program, if you wish to retain the program's benefits in respect of the affected assets.

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

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, GIMA generally looks for an Investment Product in the same asset class, and with similar attributes and holdings to the terminated Investment Product.

***Evaluation of Material Changes to Investment Products.*** If GIMA learns of a material change to an Investment Product (e.g., the departure of an Investment Manager or Manager Team), MSSB, an affiliate or a third party retained by MSSB or an affiliate, will evaluate the Investment Product in light of the change. This evaluation may take some time to complete. While this evaluation is being performed, the Investment Product will remain eligible for the IS Program. The GIMA designation (Focus List or Approved List) for the Investment Product will not be altered solely because this evaluation is in progress. MSSB will not necessarily notify clients of any such evaluation.

***Watch Policy.*** GIMA has a "Watch" policy for Investment Products on the Focus List and Approved List. Watch status indicates that, in reviewing an Investment Product, GIMA has identified specific areas of the manager's or Fund's business that (a) merit further evaluation by GIMA 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 GIMA opinion nor is it a guarantee that GIMA will downgrade the Investment Product. The duration of a Watch status depends on how long GIMA 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 GIMA's Watch Policy.

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

***Other Relationships with Managers and Funds.*** Some managers and Funds on the Approved List or Focus List may have business relationships with us or our affiliates. For example, a manager or Fund may use MS&Co. or an affiliate as its broker or may be an investment banking client of MS&Co. or an affiliate. GIMA does not consider the existence or lack of a business relationship in determining whether to include or maintain a manager or Fund on the Approved List or Focus List.

## **Graystone Fund Due Diligence**

In addition to the Funds reviewed by GIMA, certain Financial Advisors offering institutional services may offer clients access to additional mutual funds, commingled funds and ETFs reviewed by Graystone (Graystone Consulting is a division of MSSB.)

Select Graystone teams conduct due diligence on Funds using information provided by Funds' investment managers or outside independent databases, all unaffiliated with MSSB.

The Graystone team conducts both quantitative screening and a qualitative assessment. It starts by sending the Fund a request for information ("RFI") substantially similar to the one used by the MSSB mutual fund area in determining which mutual funds to bring on the MSSB platform. After reviewing the information it receives in response to the RFI, the team reviews the Fund's performance, speaks with Fund managers, and gathers information through an additional RFI and manager material.

The Graystone Director of Institutional Investments reviews the due diligence for completeness. Funds are then either approved or not approved for use in the Institutional Consulting Services programs. Currently, the approved Funds are:

1. Nuveen High Yield Municipal Bond Fund (NHMBX)
2. Ivy High Income Fund (IVHIX)
3. FPA Contrarian Strategy/FPA Crescent Fund (FPACX)
4. DoubleLine Capital LP (DBLTX)
5. Wintergreen Fund (WGRNX)
6. Blackrock Floating Rate Income (BFRIX),
7. Eaton Vance Diversified Global Currencies (EIIMX)
8. Delaware Focused Global Growth (DGGIX)
9. Nuveen Symphony Credit Opportunities Fund (NCOIX)
10. FPA New Income Fund (FPINX)
11. WisdomTree Europe Small-Cap Fund (DFE)
12. Natixis Vaughan Nelson Value Opps (VNVYX)
13. Touchstone Growth Opportunities Fund (TGVYX)
14. REMS Real Estate Value – Opportunity Portfolio (HLRRX)
15. Third Avenue Focused Credit Fund (TFCVX)
16. Goldman Sachs MLP Energy Infrastructure Fund (GMLPX)
17. Lazard US Concentrated Mutual Fund (LEVIX)
18. Oppenheimer Senior Floating Rate Fund (OOSYX)
19. Putnam Short Duration Income Fund (PSDYX)

Graystone generally conducts periodic follow-up due diligence on approved Funds.

## **MAP Due Diligence**

Select Graystone and Morgan Stanley Private Wealth Management (“PWM”) teams may approve a manager or Investment Products managed by approved managers through the Graystone Manager Assessment Program or the PWM Manager Assessment Program. (PWM is a division of MSSB.)

The reviewing team uses a proprietary tool that assesses all separate account managers in a third party database to narrow the list of potential investment managers for consideration. It then generally conducts further analysis on managers, focusing on qualitative factors (e.g., quality of investment professionals and the manager’s investment process).

If the manager is being reviewed by a Graystone team, the Graystone Director of Institutional Investments reviews the due diligence for completeness. If the manager is being reviewed by a PWM team, the Research Management Committee also reviews and, if appropriate, approves the manager. (The Research Management Committee reviews certain products made available in Consulting Group programs.) Once a manager has been approved by either reviewing team, it is available for Graystone Consulting, PWM MAP and certain other clients.

The reviewing team generally conducts periodic follow-up due diligence on approved managers (including follow-up interviews with the manager).

## **DC Investment Consulting Fund Screening (For Participant-Directed Defined Contribution Plans only)**

In addition to the mutual funds and ETFs that appear on the Focus List and Approved List of GIMA described above, for clients in the Institutional Services program for participant directed defined contribution plans, funds may be “approved” for the program in an alternate manner, as well. MSSB applies a proprietary screening process to funds in the Morningstar mutual fund database, which it applies in part using third party software. The screening algorithm, applied quarterly, is based on factors such as performance, ranking, stewardship grade, fees and manager tenure. Funds subject to this process are either approved or not approved for use in the Institutional Services program for participant directed defined contribution plans. MSSB does not maintain a Watch List for these funds equivalent to GIMA’s Watch List.

## **Selection of Alternative Investments**

Managers may only participate in the IS program if they are on MSSB’s Alternatives Approved List (described below). Managers often offer more than one alternative investment and we may include only some of those alternative investments (or only certain share classes of such alternative investment) in our programs, may carry different alternative investments (or share classes) in different programs, and assign different statuses to different alternative investments.

As well as requiring alternative investments to be on the Alternatives Approved List or Approved List, we look at other factors in determining which alternative investments we offer in these programs, including program needs (such as whether we

have a sufficient number of managers available in an asset class), and client demand.

In the programs, investment and business risk due diligence on alternative investments is provided by MSSB through (i) our Alternative Investments Research group (“AIR”), (ii) an affiliate of MSSB that may provide due diligence and monitoring services, or (iii) an independent, third-party consulting firm or other organization retained by MSSB and approved by the AIPRC (“Due Diligence Provider”) that is also in the business of evaluating the capabilities of alternative investments. Any firm providing due diligence is expected to follow a methodology similar to that used by AIR (described below) or a methodology approved by the AIPRC in reviewing such alternative investments.

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

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

Ongoing monitoring of managers and investment vehicles on the Alternatives Approved List is provided by the Due Diligence Provider. In addition to manager-specific monitoring, the reviewer monitors overall market conditions in their specific strategies of expertise.

MSSB may remove alternative investments from the programs if AIR or the Due Diligence Provider of the alternative investment downgrades the alternative investment to “Terminate”. We may

also terminate managers from these programs for other reasons (e.g., the manager has a low level of assets under management in the program, the manager has limited capacity for further investment, or the manager is not complying with our policies and procedures). Also, AIR's head of research can remove an alternative investment vehicle from the Alternatives Approved List without consulting the AIPRC, but all actions must be assessed by the AIPRC at the next meeting.

**Watch Policy.** MSSB has a "Watch" policy for alternative investments on the Approved List. Watch status indicates that, in reviewing an alternative investment, AIR or the Due Diligence Provider has identified specific areas related to the alternative investment, the manager of the alternative investment, or the markets in general that (i) merit further evaluation by AIR or the Due Diligence Provider and (ii) may, but are not certain to, result in the removal of the alternative investment from the "Approved List". Putting an alternative investment on Watch does not signify an actual change in AIR opinion nor is it a guarantee that AIR will remove the alternative investment. The duration of a Watch status depends on how long AIR needs to evaluate the reason for the status change, which may include, among things, an evaluation of the markets, the alternative investment, and the manager of the alternative investment.

### **Calculating Financial Advisors' Performance**

In the programs described in this Brochure, we calculate performance using a proprietary system.

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

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

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

If you invest in a fund of funds, your account documents may use the HFRI Fund of Funds as a benchmark. The FoF Composite consists of over 800 domestic and offshore funds of

hedge funds that have at least \$50 million under management or have been actively trading for at least 12 months. It is equally weighted on a fund by fund basis and fund assets are reported in USD on a net of fees basis. It is updated three times a month and the current month's and the prior three months' values are subject to change. MSSB is not obligated to notify you of any such changes. The FoF Composite values are likely to be more up-to-date than the data for the selected Investment Options for which it is the benchmark. You cannot invest in the FoF Composite. For more information see <https://www.hedgefundresearch.com>.

## **B. Conflicts of Interest**

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

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

Managers are allowed to 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.

We address conflicts of interest by ensuring that any payments described in this "Payments to Managers" section do not relate to any particular transactions or investment made by MSSB clients with managers. Managers participating in programs 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. Please see the discussion of Global and Emerging Partners under "Funds in Advisory Programs" in Item 4.C for more information.

**Payments from Mutual Funds.** Please see the discussion of payments from fund companies under "Funds in Advisory Programs" in Item 4.C.

**Payments from Managers of Alternative Investments.** Managers of alternative investments offered in the programs described in this Brochure may agree to pay us additional fees. We have a conflict of interest in offering alternative investments because we or our affiliates earn more money in your account from your investments in alternative investments than from other investment options. However, in cases where we receive a

portion of the management fee paid by you to a manager of an alternative investment and we charge a program fee under the programs in this Brochure, we credit such fee to your account. Also, we do not share this money with your Financial Advisor (i.e. the compensation we pay to your Financial Advisor is not affected by the payments we receive from the alternative investments). Therefore, your Financial Advisor does not have a resulting incentive to buy alternative investments in your account, or to buy certain alternative investments rather than other alternative investments in any of the programs in this Brochure.

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

These relationships create a conflict of interest for us or our affiliates as there is a financial incentive to recommend the investments. We address this conflict of interest by disclosing it to you and by requiring 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.

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

***Different Advice.*** MSSB, MS&Co. 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 a 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. MS&Co., MSSB and/or their affiliates are regular issuers of traded financial instruments linked to securities that may be purchased in client accounts. From time to time, the trading of MSSB, a manager or

their affiliates – both for their proprietary accounts and for client accounts – may be detrimental to securities held by a client and thus create a conflict of interest. We address this conflict by disclosing it to you.

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

***Services Provided to Other Clients.*** MSSB, MS&Co., investment managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that MSSB may recommend for purchase or sale by clients or are otherwise held in client accounts, and investment management firms in the programs described in this Brochure. MS&Co., MSSB, investment managers and their affiliates receive compensation and fees in connection with these services. MSSB believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account. Accordingly, it is likely that securities in an account will include some of the securities of companies for which MS&Co., MSSB, investment managers 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 has confidential or material non-public information. Furthermore, in certain investment advisory programs, MSSB may be compelled to forgo trading in, or providing advice regarding, Morgan Stanley Parent securities, and in certain related securities. These restrictions may adversely impact your account performance.

MSSB, the managers and their affiliates may also develop analyses and/or evaluations of securities sold in a program described in this Brochure, as well as buy and sell interests in securities on behalf of its proprietary or client accounts. These analyses, evaluations and purchase and sale activities are proprietary and confidential, and MSSB will not disclose them to clients. MSSB may not be able to act, in respect of clients' account, on any such information, analyses or evaluations.

MSSB, investment managers and their affiliates are not obligated to effect any transaction that MSSB or a manager or any of their affiliates believe would violate federal or state law, or the regulations of any regulatory or self-regulatory body.

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

**Certain Trading Systems.** MSSB may effect trades on behalf of client accounts through exchanges, electronic communication networks or other alternative trading systems (“Trading Systems”), including Trading Systems in which MSSB or its affiliates may have a direct or indirect ownership interest, or on which MSSB or its affiliates may have a board seat. In certain instances, MSSB and/or its affiliates may be deemed to control one or more of such Trading Systems based on the level of such ownership interest, and whether MSSB or its affiliates are represented on the board of such Trading Systems. If MSSB directly or indirectly effects client trades through Trading Systems in which MSSB or its affiliates have an ownership interest, MSSB or its affiliates may receive an indirect economic benefit based on their ownership interest. In addition, subject at all times to its obligations to obtain best execution for its customers’ orders, it is contemplated that MSSB will route certain customer order flow to its affiliates. Currently, MSSB and/or its affiliates (including affiliates of MS&Co.) own over 5% of the voting securities of certain Trading Systems, including BATS Global Markets, Inc. (commonly known as “BATS”); BIDS Holdings LLC (commonly known as “BIDS”); MTS Portugal; iSWAP; The MuniCenter; BOX Options Exchange, LLC; OTC DerivNet; and TradeWeb. 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. receive 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.

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

**Transaction-Related Agreements with MS&Co., Citigroup Global Markets Inc. (“CGM”) and Affiliates.** In connection with creating the joint venture, certain agreements were entered into between or involving some or all of MSSB, MS&Co., 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:

- **Order Flow.** An agreement that, subject to best execution, MSSB will transmit an agreed percentage of client orders for the purchase and sale of securities to MS&Co. and its affiliates. MSSB has a conflict of interest in transmitting client orders to these entities.
- **Distribution.** An agreement that, in return for the payment of certain fees and expenses, MSSB will market and promote certain securities and other products underwritten, distributed or sponsored by MS&Co., or its 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. The investment research agreement with CGM expires on March 31, 2014. It is possible that MS&Co.’s research group, on the one hand, and CGM’s research group, on the other hand, may reach different conclusions, and may make different recommendations, with respect to the same issuer or investment manager. This may, among other things, result in different investment decisions or recommendations regarding the same issuer or investment manager being made for or given to MSSB investment advisory clients.

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

### **Description of Advisory Services**

In the IS program, Financial Advisors do not act as portfolio managers. See Item 4.A above for a description of the services offered in the programs described in this Brochure.

### **Performance-Based Fees**

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

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

Financial Advisors in the programs 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.

### **Proxy Voting**

MSSB does not offer proxy voting services to its clients in the IS program.

Unless the client authorizes a third party to vote proxies, we will forward to the client or the client’s designee, any proxy materials

that we receive for the account. We cannot advise you on any particular proxy solicitation.

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

## **Item 7: Client Information Provided to Portfolio Managers**

MSSB has access to the information you provide at account opening.

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

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

## **Item 9: Additional Information**

### **Disciplinary Information**

This section contains information on certain legal and disciplinary events.

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

- In 2004, the NYSE brought an administrative action alleging that MS&Co. and MSDW (1) failed to ensure delivery of prospectuses in connection with certain sales of securities; (2) failed to timely and accurately file daily program trade reports; (3) erroneously executed certain sell orders on a minus tick for securities in which MS&Co. held a short position; (4) failed to timely submit RE-3 in connection with certain matters; (5) hired certain individuals subject to statutory disqualification and failed to file fingerprint cards for certain non-registered employees; (6) failed to comply with requirements concerning certain market-on-close and limit-on-close orders; and (7) failed to reasonably supervise certain activities. MS&Co. and MSDW resolved the action on January 7, 2005, by consenting, without admitting or denying guilt, to a censure, a fine of \$13 million, and a rescission offer to those clients who should have received a prospectus during the period from June 2003 to September 2004.
- In January 2005, the SEC filed a complaint in federal court alleging that, during 1999 and 2000, MS&Co. violated Regulation M by attempting to induce certain customers who received allocations of IPOs to place purchase orders for additional shares in the aftermarket. The SEC did not allege fraud or impact on the market. On January 25, 2005, MS&Co. agreed to the entry of a judgment enjoining MS&Co. from future violations and the payment of a \$40

million civil penalty. The settlement terms received court approval on February 4, 2005.

- In March 2005, the SEC entered an administrative and cease and desist order against CGM for two disclosure failures by CGM in offering and selling mutual fund shares. Firstly, CGM received from mutual fund advisers and distributors revenue sharing payments, in exchange for which CGM granted mutual funds preferential sales treatment. The order found that CGM did not adequately disclose its revenue sharing program to its clients, in violation of the Securities Act of 1933 (“Securities Act”) and Rule 10b-10 under the Securities Exchange Act of 1934 (“Exchange Act”). Secondly, on sales of Class B mutual fund shares in amounts aggregating \$50,000 or more, the order found that CGM, in violation of the Securities Act, failed to disclose adequately at the point of sale that such shares were subject to higher annual fees. These fees could have a negative impact on client investment returns, depending on the amount invested and the intended holding period. The SEC order censured CGM, required CGM to cease and desist from future violations of the applicable provisions, and required CGM to pay a \$20 million penalty.
- In March 2005, the NASD censured and fined CGM with respect to CGM’s offer and sale of Class B and Class C mutual fund shares during 2002 and the first six months of 2003. The NASD found that CGM either had not adequately disclosed at the point of sale, or had not adequately considered in connection with its recommendations to clients to purchase Class B and Class C shares, the differences in share classes and that an equal investment in Class A shares generally would have been more advantageous for the clients. The NASD also found that CGM’s supervisory and compliance policies and procedures regarding Class B and Class C shares had not been reasonably designed to ensure that SB Financial Consultants consistently provided adequate disclosure of, or consideration to, the benefits of the various mutual fund share classes as they applied to individual clients. The NASD censured CGM and required CGM to pay a \$6.25 million fine.
- On May 31, 2005, the SEC issued an order in connection with the settlement of an administrative proceeding against Smith Barney Fund Management LLC (“SBFM”) and CGM relating to the appointment of an affiliated transfer agent for the Smith Barney family of mutual funds (“Smith Barney Funds”). SBFM was an affiliate of CGM during the applicable period.

The SEC order found that SBFM and CGM willfully violated section 206(1) of the Investment Advisers Act of 1940 (“Advisers Act”). Specifically, the order found that SBFM and CGM knowingly or recklessly failed to disclose to the Boards of the Smith Barney Funds in 1999 when proposing a new transfer agent arrangement with an affiliated transfer agent that: First Data Investors Services Group (“First Data”), the Smith Barney Funds’ then-existing transfer agent, had offered to continue as transfer agent and do the same work for substantially less money than before; and Citigroup Asset Management (“CAM”), the Citi business unit that includes the Smith Barney Funds’ investment manager and

other investment advisory companies, had entered into a side letter with First Data under which CAM agreed to recommend the appointment of First Data as sub-transfer agent to the affiliated transfer agent in exchange, among other things, for a guarantee by First Data of specified amounts of asset management and investment banking fees to CAM and CGM. The order also found that SBFM and CGM willfully violated section 206(2) of the Advisers Act by virtue of the omissions discussed above and other misrepresentations and omissions in the materials provided to the Smith Barney Funds' Boards, including the failure to make clear that the affiliated transfer agent would earn a high profit for performing limited functions while First Data continued to perform almost all of the transfer agent functions, and the suggestion that the proposed arrangement was in the Smith Barney Funds' best interests and that no viable alternatives existed. SBFM and CGM did not admit or deny any wrongdoing or liability. The settlement did not establish wrongdoing or liability for purposes of any other proceeding.

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

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

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

admitting or denying the allegations, MS&Co. consented to a final judgment on May 12, 2006 in which it was permanently restrained and enjoined from violating the Exchange Act. MS&Co. agreed to make payments aggregating \$15 million, which amount was reduced by \$5 million contemporaneously paid by MS&Co. to the NASD and the NYSE in related proceedings. MS&Co. also agreed to notify the SEC, the NASD and the NYSE that it has adopted and implemented policies and procedures reasonably designed to ensure compliance with the Exchange Act. MS&Co. also agreed to provide annual training to its employees responsible for preserving or producing electronic communications and agreed to retain an independent consultant to review and comment on the implementation and effectiveness of the policies, procedures and training.

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

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

violations addressed in the LAWC, and the ongoing corrective action that they were in the process of completing.

- On May 9, 2007, the SEC issued an Order (“May 2007 Order”) settling an administrative action with MS&Co. In this matter, the SEC found that MS&Co. violated its duty of best execution under the Exchange Act. In particular, the SEC found that, during the period of October 24, 2001 through December 8, 2004, MS&Co.’s proprietary market-making system failed to provide best execution to certain retail OTC orders. In December 2004, MS&Co. removed the computer code in the proprietary market-making system that caused the best execution violations. MS&Co. consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, to pay disgorgement of approximately \$5.9 million plus prejudgment interest on that amount, and to pay a civil penalty of \$1.5 million. MS&Co. also consented to retain an Independent Compliance Consultant to review its policies and procedures in connection with its market-making system’s order handling procedures and its controls relating to changes to those procedures, and to develop a better plan of distribution.
- On July 13, 2007, the NYSE issued a Hearing Board Decision in connection with the settlement of an enforcement proceeding brought in conjunction with the New Jersey Bureau of Securities against CGM. The decision held that CGM failed to (1) adequately supervise certain branch offices and Financial Advisors who engaged in deceptive mutual fund market timing on behalf of certain clients from January 2000 through September 2003 (in both proprietary and non-proprietary funds); (2) prevent the Financial Advisors from engaging in this conduct; and (3) make and keep adequate books and records. Without admitting or denying the findings, CGM agreed to (a) a censure; (b) establishing a \$35 million distribution fund for disgorgement payments; (c) a penalty of \$10 million (half to be paid to the NYSE and half to be paid to the distribution fund); (d) a penalty of \$5 million to be paid to the State of New Jersey; and (e) appointing a consultant to develop a plan to pay CGM’s clients affected by the market timing.
- On September 27, 2007, MS&Co. entered into a LAWC with the Financial Industry Regulatory Authority (“FINRA”). FINRA found that, from October 2001 through March 2005, MSDW provided inaccurate information to arbitration claimants and regulators regarding the existence of pre-September 11, 2001 emails, failed to provide such emails in response to discovery requests and regulatory inquiries, failed adequately to preserve books and records, and failed to establish and maintain systems and written procedures reasonably designed to preserve required records and to ensure that it conducted adequate searches in response to regulatory inquiries and discovery requests. FINRA also found that MSDW failed to provide arbitration claimants with updates to a supervisory manual in discovery from late 1999 through the end of 2005. MS&Co. agreed, without admitting or denying these findings, to establish a \$9.5 million fund for the benefit of potentially affected arbitration claimants. In addition, MS&Co. was censured and agreed to pay a \$3 million regulatory fine and to retain an independent consultant to review its procedures for complying with discovery requirements in arbitration proceedings relating to its retail brokerage operations.
- On October 10, 2007, MS&Co. became the subject of an Order Instituting Administrative and Cease-And-Desist Proceedings (“October 2007 Order”) by the SEC. The October 2007 Order found that, from 2000 until 2005, MS&Co. and MSDW failed to provide to their retail customers accurate and complete written trade confirmations for certain fixed income securities in violation of the Exchange Act and MSRB rules. In addition, MS&Co. was ordered to cease and desist from committing or causing any future violations, and was required to pay a \$7.5 million penalty and to retain an independent consultant to review MS&Co.’s applicable policies and procedures. MS&Co. consented to the issuance of the October 2007 Order without admitting or denying the SEC’s findings.
- On December 18, 2007, MS&Co. became the subject of an Order Instituting Administrative Cease-and-Desist Proceedings (“December 2007 Order”) by the SEC. The December 2007 Order found that, from January 2002 until August 2003, MSDW (1) failed to reasonably supervise four Financial Advisors, with a view to preventing and detecting their mutual fund market-timing activities and (2) violated the Investment Company Act of 1940 by allowing multiple mutual fund trades that were placed or amended after the close of trading to be priced at that day’s closing net asset value. The December 2007 Order also found that, from 2000 through 2003, MSDW violated the Exchange Act by not making and keeping records of customer orders placed after the market close and orders placed for certain hedge fund customers in variable annuity sub-accounts. Without admitting or denying the SEC’s findings, MS&Co. agreed to a censure, to cease and desist from future violations of the applicable provisions, to pay a penalty of approximately \$11.9 million, to disgorge profits related to the trading activity (including prejudgment interest) of approximately \$5.1 million and to retain an independent distribution consultant.
- In May 2005, MS&Co. and MSDW discovered that, from about January 1997 until May 2005, their order entry systems did not check whether certain secondary market securities transactions complied with state registration requirements known as Blue Sky laws. This resulted in the improper sale of securities that were not registered in 46 state and territorial jurisdictions. MS&Co. and MSDW conducted an internal investigation, repaired system errors, self-reported the problem to all affected states and the New York Stock Exchange, identified transactions which were executed in violation of the Blue Sky laws, and offered rescission to affected customers. MS&Co. settled the state regulatory issues in a multi-state settlement with the 46 affected state and territorial jurisdictions. Under the settlement, MS&Co. consented to a cease and desist order with, and agreed to pay a total civil monetary penalty of \$8.5 million to be divided among, each of the 46 state and territorial jurisdictions. The first order was issued by Alabama on March 19, 2008, and orders are expected to be issued by subsequent states over the coming months.



- On August 13, 2008, MS&Co. agreed on the general terms of a settlement with the NYAG and the Office of the Illinois Secretary of State, Securities Department (“Illinois”) (on behalf of a task force of the North American Securities Administrators Association (“NASAA”)) with respect to the sale of auction rate securities (“ARS”). MS&Co. agreed, among other things, to repurchase at par approximately \$4.5 billion of illiquid ARS held by certain clients of MS&Co. which were purchased prior to February 13, 2008. Additionally, MS&Co. agreed to pay a total fine of \$35 million. Final agreements were entered into with the NYAG on June 2, 2009 and with Illinois on September 17, 2009. The Illinois agreement serves as the template for agreements with other NASAA jurisdictions.
- On November 13, 2008, in connection with the settlement of a civil action arising out of an investigation by the SEC into CGM’s underwriting, marketing and sale of ARS, CGM, without admitting or denying the allegations of the SEC’s complaint, except as to those relating to personal and subject matter jurisdiction, which were admitted, consented to the entry in the civil action of a Judgment As To Defendant Citigroup Global Markets Inc. (“November 2008 Judgment”). Thereafter, on December 11, 2008, the SEC filed its civil action in the federal district court for the Southern District of New York (“Court”). The November 2008 Judgment, which was entered on December 23, 2008 (i) permanently enjoined CGM from directly or indirectly violating section 15(c) of the Exchange Act; (ii) provides that, on later motion of the SEC, the Court is to determine whether it is appropriate to order that CGM pay a civil penalty pursuant to section 21(d)(3) of the Exchange Act, and if so, the amount of the civil penalty; and (iii) ordered that CGM’s Consent be incorporated into the November 2008 Judgment and that CGM comply with all of the undertakings and agreements in the Consent, which include an offer to buy back at par certain ARS from certain customers. The SEC’s complaint alleged that (1) CGM misled tens of thousands of its customers regarding the fundamental nature of and risks associated with ARS that CGM underwrote, marketed and sold; (2) through its financial advisers, sales personnel and marketing materials, CGM misrepresented to customers that ARS were safe, highly liquid investments comparable to money market instruments; (3) as a result, numerous CGM customers invested in ARS funds they needed to have available on a short-term basis; (4) in mid-February 2008, CGM decided to stop supporting the auctions; and (5) as a result of the failed auctions, tens of thousands of CGM customers held approximately \$45 billion of illiquid ARS, instead of the liquid short-term investments CGM had represented ARS to be. CGM reached substantially similar settlements with the NYAG and the Texas State Securities Board (“TSSB”), although those settlements were administrative in nature and neither involved the filing of a civil action in state court. The settlements with the NYAG and the TSSB differed somewhat from the settlement with the SEC in that the state settlements (a) made findings that CGM failed to preserve certain recordings of telephone calls involving the ARS trading desk; and (b) required CGM to refund certain underwriting fees to certain municipal issuers. In addition, as part of the settlement with New York, CGM paid a civil penalty of \$50 million. CGM also agreed in

principle to pay to states other than New York with which it enters into formal settlements a total of \$50 million. CGM paid \$3.59 million of this \$50 million to Texas as part of the settlement with that state. CGM expects it will reach settlements with the remaining states.

- On March 25, 2009, MS&Co. entered into a LAWC with FINRA. FINRA found that, from 1998 through 2003, MSDW failed to reasonably supervise the activities of two Financial Advisors in one of its branches. FINRA found that these Financial Advisors solicited brokerage and investment advisory business from retirees and potential retirees of certain large companies by promoting unrealistic investment returns and failing to disclose material information. FINRA also held that MS&Co. failed to ensure that the securities and accounts recommended for the retirees were properly reviewed for appropriate risk disclosure, suitability and other concerns. MS&Co. consented, without admitting or denying the findings, to a censure, a fine of \$3 million, and restitution of approximately \$2.4 million plus interest to 90 former clients of the Financial Advisors.

MSSB’s Form ADV Part 1 contains further information about its disciplinary history, and is available on request from your 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 (“FCM”).

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

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

These restrictions may adversely impact client account performance.

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

***Related Investment Advisors and Other Service Providers.***

MSSB has related persons that are registered investment advisers in various investment advisory programs (including Morgan Stanley Investment Management Inc., Morgan Stanley Investment Management Limited and Consulting Group Advisory Services LLC). If you invest your assets and use an affiliated firm to manage your account, MSSB and its affiliates earn more money than if you use an unaffiliated firm. Generally, for 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 nonaffiliated investment companies.

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

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

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

**Code of Ethics**

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

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

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

- Certain Employees are subject to further restrictions on their securities transaction activities (including Financial Advisors and other MSSB employees who act as portfolio managers in MSSB investment advisory programs).

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

See Item 6.B above.

## **Reviewing Accounts**

At account opening, your Financial Advisor must ensure that, and the Financial Advisor's Branch Manager (or the Branch Manager's designee) confirms that, the account and the investment style are suitable investments for you.

As an IS client, your Financial Advisor is then responsible for reviewing your account on an ongoing basis and will recommend different asset allocations at any time according to market conditions. Your Financial Advisor will ask you at least annually if your investment objectives have changed. If your objectives change, your Financial Advisor will modify your asset allocation to be suitable for your needs.

See Item 4.A above for a discussion of account statements and performance reporting.

## **Client Referrals and Other Compensation**

See "Payments from Mutual Funds" and "Payments from Managers" in Item 6.B above.

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

## **Financial Information**

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

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

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

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

### **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 MSSB Retirement Plan Accounts formerly at Citi and/or Smith Barney did not begin using BDP as the Sweep Investment until MSSB completed the merger of its investment advisory programs in 2012):

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

Before the Effective Dates, MSSB affected such sweep transactions using the Morgan Stanley money market funds listed in the table below as follows (although MSSB Retirement Plan Accounts formerly at Citi and/or Smith Barney did not begin using these Morgan Stanley money market funds as the Sweep Investment until sometime after the Effective Date):

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

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

***Now, as an alternative to the Deposit Account, Retirement Plan Accounts and CESAs can choose to sweep into ILAF.***

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

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

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

### **Interest Earned on Float**

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

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

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

Generally, with respect to such assets awaiting investment:

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

## MSSB as an ERISA fiduciary

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

- The rate of Advisory Fee and Distribution and Service Fees (including 12b-1 fees) (whether in basis points or dollars) may not be increased without first obtaining shareholder approval.
- Expenses designated as "Other Expenses" include all expenses not otherwise disclosed in the table that were deducted from each fund's assets or charged to all shareholder accounts in the stated fiscal year (and may change from year to year).

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

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

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

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

The fund expense information below reflects the most recent information available to us as of February 26, 2014, 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	0.25%	0.10%	0.07%	0.42%	0.26%
Active Assets Government Securities Trust	0.45%	0.10%	0.12%	0.67%	0.14%
Active Assets Institutional Government Securities Trust	0.10%	None	0.07%	0.17%	0.14%
Active Assets Institutional Money Trust	0.10%	None	0.08%	0.18%	0.17%
Morgan Stanley Liquid Asset Fund Inc.	0.23%	0.10%	0.12%	0.45%	0.23%
Morgan Stanley U.S. Government Money Market Trust	0.35%	0.10%	0.10%	0.55%	0.16%