

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

Custom Investment Outsourcing Program

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

**Additional information about MSSB also is available on the SEC’s website at [www.adviserinfo.sec.gov](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, 2014. For more details on any particular matter, please see the item in this ADV brochure referred to in the summary below.

**Tax Management Procedures.** If you elect Tax Management services for your account on or after April 20, 2015, you will no longer need to complete or sign a separate Tax Management Services form. Instead, you will need to tell your Financial Advisor that you desire Tax Management services, and what Maximum Tax or Realized Capital Gain Instructions you desire for your account. The Tax Management Terms and Conditions attached to this Brochure as Exhibit A will govern Tax Management services in your account. (Item 4.A and Exhibit A)

**Fees.** Although not likely to apply to accounts in the CIO program, MSSB will impose a minimum fee of the lesser of 2% of the market value of securities held in the account or \$250 on all investment advisory accounts opened after June 30, 2009. (Item 4.A)

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## Item 4: Services, Fees and Compensation

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

MSSB offers clients (“you” and “yours”) 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 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.)

In addition, we reasonably expect to provide services as a “fiduciary” (as that term is defined in Section 3(21)(A) of the Employee Retirement Income Security Act of 1974 (“ERISA”) and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”) ), with respect to “Retirement Accounts” (as that term is described herein). For purposes of this brochure, the term “Retirement Account” will be used to cover (i) “employee benefit plans” (as defined under Section 3(3) of ERISA, which include pension, profit-sharing or welfare plans sponsored by private employers, as well as similar arrangements sponsored by governmental or other public employers; (ii) individual retirement accounts “IRAs” (as described in Section 4975 of the Code); and “Coverdell Educational Savings Accounts (“CESAs”).

### A. General Description of Programs

#### Custom Investment Outsourcing

#### Custom Investment Outsourcing (“CIO”)

Custom Investment Outsourcing or “CIO” (formerly Fiduciary Asset Management or “FAM”) is generally for institutional and high net worth clients. In CIO, a client appoints MSSB as the discretionary investment manager, relative to the selection of unaffiliated mutual funds, exchange traded funds, collective investment trusts, hedge funds/alternative investment funds or investment management firms (“subadvisors” or “managers”) to manage the client’s account ( collectively “Investment Products”). In addition to the discretionary investment management, MSSB will also provide custodial, trade execution and related services for a single asset based fee. CIO is a discretionary program in which MSSB retains discretion as to the selection of and allocation among unaffiliated managers and Investment Products. CIO is designed to manage the overall investment process, including investment policy decisions, asset and investment style allocation decisions, manager selection and

review, and comprehensive monitoring of the client’s portfolio.

In CIO, MSSB will assume responsibility for the implementation of all investment strategies through the selection-approval and on-going monitoring of the Investment Products. MSSB assumes full discretion over asset allocation decisions as well as decisions to terminate any Investment Product. In certain cases, an internal portfolio management team within MSSB will be responsible for exercising this discretion. In other cases, Graystone Consultants, who are MSSB Financial Advisors that meet certain qualification standards, will be responsible for exercising this discretion. MSSB also provides the client with on-going financial management services such as investment performance reporting, administration, trade execution and custody. Based on a client’s long-term strategic policy allocation parameters and other investment constraints, MSSB will look for opportunities in asset classes or investment styles with above average expected rates of return while managing overall portfolio risk in accordance with the client’s investment policies. As a “manager of managers”, MSSB will assume full responsibility for the operations the client’s investment program.

In order to assess the appropriateness of the assets in the client’s current portfolio, MSSB will conduct a review of the investment policy, asset allocation and fund assets following these key steps:

- **Investment Policy Statement** – MSSB will assist the client in the preparation of an investment policy statement (“IPS”) in order to evaluate and articulate the clients risk tolerance and investment objectives. In doing so, MSSB will assist the client in identifying its needs for liquidity, income, growth of income, growth of principal and preservation of capital. The IPS will assist the client in selecting and developing an appropriate investment strategy and will assist MSSB in executing such strategies.
- **Current Portfolio Analysis** – MSSB will complete a thorough evaluation of a client’s current investment program, including investment structure, individual components of each fund, fee structures, manager selection process, possible conflicts of interest, peer universe comparisons and on-going evaluation procedures. The analysis will culminate in a business evaluation of all contracts, custodial documents and performance monitors.
- **Asset Allocation Analysis** - MSSB will complete an analysis of the asset allocation and the basis for asset allocation decisions. The analysis will assist the client in understanding the modeling process and will lead to an estimate as to the client’s needs for updates and the frequency with which such uptakes will be provided. This is a key component in MSSB’s risk management evaluation process.

**Tax Management.** In CIO, a client may elect tax management (“Tax Management”) services for the account. In order to elect Tax Management services prior to April 20, 2015, you must complete and sign a Tax Management Services form, and deliver the signed form to MSSB. If you elect Tax Management services on or after April 20, 2015, you will no longer need to complete or sign a separate Tax Management Services form. Instead, you will need to tell your Financial Advisor that you desire Tax Management services, and what Maximum Tax or Realized Capital Gain Instructions you desire for your account. The Tax Management Terms and Conditions attached to this Brochure as Exhibit A will govern Tax Management services in your account.

**Alternative Investments Performance Reporting Service.** In CIO, MSSB offers alternative investments performance reporting capabilities. MSSB offers clients the ability to receive periodic reports that provide historical performance reporting of their alternative investments that were not purchased through MSSB. In addition, MSSB will consider these alternative investments for purposes of its performance monitoring and asset allocation analysis.

The alternative investments 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 or 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 enables the client to receive from MSSB periodic reports containing the client’s historical performance information as reported by the applicable performance reporting AI.

The reporting service and asset allocation analysis are 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 a part of this service. In addition, the service does not constitute, create or impose a fee-based brokerage relationship, a fiduciary relationship or an investment advisory relationship under the Investment Advisers Act of 1940, as amended, with regard to the provision of the investments covered under this service. If the Client is an employee benefit plan or is otherwise subject to 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.

## **Graystone Consulting**

In certain instances, MSSB will provide discretionary investment advisory services using the CIO platform through MSSB’s Graystone Consulting group. Graystone Consulting provides investment consulting to institutional and high net worth individuals. In the Graystone Discretionary Services program, qualified Graystone Consulting teams are responsible for the discretionary selection and rebalancing of clients’ investment options utilizing the resources of the CIO program. Details of the Graystone Consulting program in general can be found in the Graystone Consulting ADV brochure, which will be made available to all Graystone Consulting clients whose assets are managed by MSSB on the CIO platform.

## **Account Opening**

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

## **Investment Restrictions**

The Client may impose reasonable restrictions on account investments. For example, you may restrict MSSB or the managers from buying specific equity securities, a category of equity 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 will not be applied to Fund holdings since Funds operate in accordance with the investment objectives and strategies described in their prospectuses.

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

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

We provide performance monitoring to clients on a case-by-case basis in a format and with a frequency as requested by the client.

## **Consulting Group Trust Services**

In the Custom Investment Outsourcing program, MSSB may offer integrated wealth management solutions, which may include trusts. MSSB will not accept an appointment as, nor will it act as, a trustee (an MSSB affiliate, such as Morgan Stanley National Association, may be serving as trustee for existing accounts and is closed to new accounts). In order to offer 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 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. You or your designees will sign these separate agreements and may pay a separate fee to your attorney. External trust companies and MSSB charge separate fees for their respective services, which may be higher than fees charged to clients outside of the CG Trust Services program for comparable services. 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 indirect economic benefit from an unrelated third party (see “Client Referrals and Other Compensation”, Item 9 below).

Certain external third party trust companies have agreed to use the services (including MSSB custody services) described in this brochure for each CG Trust Services client, unless the client issued contrary instructions, and so long as such use of MSSB services will not cause the trust company to violate any duty or obligation.

Regardless of the external trust company you select, unless you have appointed another custodian, you can custody your assets at MSSB through CG Trust Services. Accounts outside of CG Trust Services may be subject to different custody arrangements.

MSSB has made arrangements to have a number of external trust companies participate in CG Trust Services as described above. While these arrangements are designed to enhance the administrative and operational experience of clients who appoint such an external trust company and MSSB to administer 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 arrangements with CG Trust Services over other external trust companies.

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

## **Risks**

All trading in an account is at your risk. The value of the assets held in an account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. Investment performance of any kind is not guaranteed, and MSSB’s or a MSSB 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 MSSB Financial Advisors may use in the programs have specific risks, including those associated with investments in common stock, fixed income securities, American Depositary Receipts, Funds and the investments below. 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.

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

***Risks 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 alternative investment, such an investment can be highly illiquid, may be speculative and is not suitable for all investors. For example, alternative investments may place substantial limits on liquidity and the redemption rights of investors. Other risks include the possible loss of a substantial portion of an investment due to leveraging or other speculative practices, lack of a secondary market for securities, volatility of returns, concentration risks and lack of diversification, complex tax structures and delays in tax reporting, less regulation and higher fees. Investors should carefully review and consider the potential risks of alternative investments.

***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 or legal strategies that may be employed by the client. The client should develop any such strategies or address any tax-related issues with a qualified tax adviser or any legal issues with a qualified attorney.

## Fees

The following Fee schedule shall apply to CIO accounts.

<b>On the first \$5,000,000</b>	<b>1.750%</b>
<b>On the next \$5,000,000</b>	<b>1.000%</b>
<b>On the next \$15,000,000</b>	<b>0.500%</b>
<b>On the next \$25,000,000</b>	<b>0.400%</b>
<b>On the next \$50,000,000</b>	<b>0.250%</b>
<b>On the next \$100,000,000</b>	<b>0.150%</b>

For the CIO program as offered through Graystone Consultants, the fees schedule is: 0.85% on the first \$25 million; 0.40% on the next \$25 million; and 0.25% on the next \$50 million and 0.15% on assets in excess of \$100 million.

Fees for the programs described in this brochure are negotiable based on 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 maximum annual fee stated in this section.

The fee is payable as described in the Client Agreement. Generally, the initial fee is due in full on the date you open your account at 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. The Client Agreement authorizes MSSB to deduct fees when due from the assets contained in the account.

In addition to the MSSB fee described above, CIO Clients also bear manager expenses (which generally range up to .75%) or the expense ratios of mutual funds and other pooled investment vehicles directly.

Although not likely to apply to accounts in the CIO program, MSSB will impose a minimum fee of the lesser of 2% of the market value of securities held in the account or \$250 on all investment advisory accounts opened after June 30, 2009.

**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 Retirement Accounts.** 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.

## B. Comparing Costs

The primary service that you are purchasing in the programs described in this brochure is the Firm's discretionary management of your portfolio pursuant to certain program guidelines. Cost comparisons are difficult because that particular service is not offered in other CG programs. Depending on the level of trading and types of securities purchased or sold in your account, if purchased separately, you may be able to obtain transaction execution at a higher or lower cost at MSSB or elsewhere than the fee in 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. Those programs involve the discretionary portfolio management decisions of third party investment managers and not your Financial Advisor.

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 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
- certain other costs or charges that may be imposed by third parties (including, among other things, odd-lot differentials, transfer taxes, foreign custody fees, exchange fees, supplemental transaction fees, regulatory fees and other fees or taxes that may be imposed pursuant to law).

### **Funds in Advisory Programs**

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

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 and 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. Such expenses 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 Global Investment Manager Analysis Group, known as “GIMA” (formerly known as CG Investment Advisor Research group or “CGIAR”) 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 and Emerging Partners are denoted by an asterisk on the Revenue-Sharing Fund Families list available on our website at <http://www2.morganstanley.com/wealth/investmentsolutions/mutualfunds.asp> and clicking on “Revenue Sharing Arrangements” at the bottom of the page.

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, as applicable, for each position 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. Mutual fund companies that do not agree to make these payments do not receive the same degree of access to our firm.

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

For more information, please see 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) which is also available from your Financial Advisor upon request.

### **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, allocations to cash and cash equivalents, 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 managed by Morgan Stanley Investment Advisors Inc. or another of our affiliates (each, a "Money Market Fund" and, together with BDP Deposit accounts, "Sweep Investments").

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

Uninvested cash and allocations to cash including assets invested in Sweep Investments are included in the Fee calculation hereunder.

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; or (iv) transfer your sweep investment from one sweep product to another.

Clients that are considered Retirement Accounts or are Coverdell

Education Savings Accounts should read Exhibit B to this Brochure ("Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement").

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

**Bank Deposit Program.** 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 (the "FDIC") up to applicable limits, in accordance with FDIC rules, and subject to the aggregation of all accounts (including without limitation certificates of deposit that you hold at the Sweep Banks in the same capacity). Bank deposits held through the BDP are not covered by SIPC or excess coverage.

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

Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which will be provided to you upon your first investment in the Bank Deposit Program. You may also obtain the Bank Deposit Program Disclosure Statement as well as current interest rates applicable to your account, by contacting your Financial Advisor or through MSSB's web site at [http://www.morganstanley.com/wealthinvestmentstrategies/pdf/BDP\\_disclosure.pdf](http://www.morganstanley.com/wealthinvestmentstrategies/pdf/BDP_disclosure.pdf) and <http://www.morganstanley.com/wealth-investmentstrategies/ratemonitor.html>. You acknowledge and understand that we may amend the list of Sweep Banks at any time without notice to you. If you are participating in the Bank Deposit Program, please read the Bank Deposit Program Disclosure 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 the FDIC insurance coverage available to you and (ii) MSSB is not responsible for any

insured or uninsured portion of your deposits at any Sweep Bank.

If BDP is your Sweep Investment, you should be aware that the Sweep Banks will pay MSSB an annual account-based flat fee for the services performed by MSSB with respect to BDP. MSSB and the Sweep Banks will review such fee annually and, if applicable, mutually agree upon any changes to the fee to reflect any changes in costs incurred by MSSB. 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.

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 earned by MSSB on Money Market Funds. Thus, MSSB has a conflict of interest in selecting or recommending BDP as the sweep fund, rather than an eligible Money Market Fund.

**Unless otherwise specifically disclosed to 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 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, Money Market Funds.

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.

In addition, certain of the Money Market Funds described above have minimum investment 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 the Sweep Investment in the future.

We may offer other Money Market Funds as a non-sweep investment choice. You may purchase shares in these money market funds by giving specific orders for each purchase to your Financial Advisor, or if applicable to the program in which you are invested, your Financial Advisor may purchase such shares for your Account under the Financial Advisor's discretionary authority. 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 Money Market Funds. Therefore, MSSB has a conflict of interest in selecting or recommending the Money Market Funds as your Sweep Investment. For retirement accounts with cash balances invested in money market funds managed or sponsored 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 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.

**Alternatives to the Bank Deposit Program.** All accounts that are eligible can choose from among certain Sweep Investments as alternatives to the Bank Deposit Program.

Please contact your Financial Advisor for more information about choosing an alternative Sweep Investment. In addition, you may obtain information with respect to the current yields and interest rates on the available Sweep Investments by contacting your Financial Advisor or through MSSB's web site at [www.morganstanley.com/wealth/investmentstrategies/ratemonitor.asp](http://www.morganstanley.com/wealth/investmentstrategies/ratemonitor.asp).

**Miscellaneous.** The rate of return on a default Sweep Investment may be higher or lower than the rate of return available in other Sweep Investments. Neither MSSB nor any affiliate is responsible to you if the default Sweep Investment has a lower rate of return than the other available Sweep Investments or causes any tax consequences resulting from your investment in the default Sweep Investment. We may, in our sole discretion determine and change the Sweep Investments available in your account. We may, at any time, discontinue offering any available Sweep Investment and, upon notice to you, cease offering your Sweep Investment. If we cease offering your Sweep Investment and you do not select a new Sweep Investment, your new Sweep Investment will be the default Sweep Investment as designated by us for such account.

Generally, temporary "sweep" transactions of all uninvested cash balances, allocations to cash and cash equivalents, if any, in the account will commence, to the extent permitted by

applicable law, on the next business day, with dividends credited to the client on the second business day. (If cash is deposited after normal business hours, the deposit may be credited on our recordkeeping system, for purposes of the preceding sentence, as having been received on the following business day.) (For certain accounts — namely accounts established as Basic Security Accounts that have less than \$1,000 in the Sweep Investment — amounts awaiting investment will sweep weekly.)

Neither MSSB nor any affiliate will be responsible for any losses resulting from a delay in the investment of cash balances.

You authorize us to invest your funds in your Sweep Investment and to satisfy debits in your account by redeeming shares or withdrawing funds, as applicable, from your Sweep Investment. Upon any such sale, gains on your position may be taxable.

You may change your Sweep Investment to another Sweep Investment, if available for your account, by contacting your Financial Advisor. You agree that upon selection of a new Sweep Investment we may, as applicable, sell your shares in, or withdraw your funds from, your current Sweep Investment and, as applicable, purchase shares or deposit funds in your new Sweep Investment. There may be a delay between the time we sell shares or withdraw funds from your current Sweep Investment and the time we purchase shares or deposit funds in your new Sweep Investment. You may not earn interest or dividends during the time your funds are not invested.

***Conflicts of Interest Regarding Sweep Investments.*** If your Sweep Investment is a Money Market Fund, as available, then the account, as well as other shareholders of the Money Market Fund, will bear a proportionate share of the other expenses of the Money Market Fund in which the account's assets are invested.

If your Sweep Investment is a Money Market Fund, you understand that Morgan Stanley Investment Management Inc. (or another MSSB affiliate) may receive an investment management fee for managing the Money Market Fund and that Morgan Stanley Distributors Inc., or another one of our affiliates, may receive compensation in connection with the operation and/or sale of shares of the Money Market Fund, which may include a distribution fee pursuant to Rule 12b-1 under the Investment Company Act of 1940, to the extent permitted by applicable law.

Unless you are a Retirement Account, the Fee will not be reduced by the amount of the Money Market Fund management fee or any shareholder servicing and/or distribution or other fees we or our affiliates may receive in connection with the assets invested in the Money Market Fund. For additional information about the Money Market Fund and applicable fees, you should refer to each Money Market Fund's prospectus.

If your Sweep Investment is the Bank Deposit Program, 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. The fee received by MSSB may affect the interest rate paid by the Sweep Banks

on your Deposit Accounts. Your Financial Advisor will not receive a portion of the fee. In addition, MSSB will not receive the fee in connection with the Program for Retirement Accounts. Affiliates of MSSB, however, may receive a financial benefit in the form of credit allocations made for financial reporting purposes. The amount of this benefit will vary and will be based on the average daily deposit balances in the Deposit Accounts at each Sweep Bank. Generally, these benefits will increase as more funds are deposited through the Bank Deposit Program. No separate charges, fees or commissions will be imposed on your account as a result of or otherwise in connection with the Bank Deposit Program.

In addition, MSSB, the Sweep Banks and their affiliates receive other financial benefits in connection with the Bank Deposit Program. Through the Bank Deposit Program, each Sweep Bank will receive a stable, cost-effective source of funding. Each Sweep Bank intends to use deposits in the Deposit Accounts at the Sweep Bank to fund current and new businesses, including lending activities and investments. The profitability on such loans and investments is generally measured by the difference, or "spread," between the interest rate paid on the Deposit Accounts at the Sweep Banks and other costs of maintaining the Deposit Accounts, and the interest rate and other income earned by the Sweep Banks on those loans and investments made with the funds in the Deposit Accounts. The income that a Sweep Bank will have the opportunity to earn through its lending and investing activities is expected to be greater than the fees earned by us and our affiliates from managing and distributing the money market funds available to you as a sweep investment.

## **D. Compensation to MSSB**

If you invest in the program described in this brochure, a portion of the fees payable to us in connection with your account is allocated on an ongoing basis to MSSB Financial Advisors. The amount allocated to your MSSB 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. MSSB 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 the program 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 MSSB Financial Advisor. Therefore, MSSB Financial Advisors have a financial incentive not to reduce fees

**Payments from Mutual Funds and Managers.** Please see the discussion of the Administrative Service Fee, as well as Global and Emerging Partners in Item 4 C.

## 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 funds including 401(k) plans, 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 Program

Please refer to the discussion in Section 4 A. for a complete description.

#### Calculating MSSB Financial Advisors' Performance

In the program described in this brochure, we calculate performance using a proprietary system. MSSB allows MSSB Financial Advisors to create a composite performance track record for accounts they manage in a similar style.

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

### B. Conflicts of Interest

*Please see the discussion relating to Global and Emerging Partners in Item 4. C*

Investment managers are allowed to occasionally give nominal gifts to MSSB 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 the achievement of a sales target.

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

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

**Different Advice.** MSSB and its 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 and its affiliates may provide bids and offers, and may act as principal market maker, in respect of the same securities held in client accounts. MSSB, the investment managers in its programs, and their affiliates and employees may hold a position (long or short) in the same securities held in client accounts. MS & Co. and/or its 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.** MSSB may aggregate the securities to be sold or purchased for more than one client to obtain favorable execution to the extent permitted by law. Trades may then be allocated in a manner that is equitable and consistent with MSSB's fiduciary duty to its clients (including pro rata allocation, random allocation or rotation allocation). Allocation methods vary depending on various factors (including the type of investment, the number of shares purchased or sold, the size of the accounts, and the amount of available cash or the size of an existing position in an account). The price to each client is the average price for the aggregate order.

**Services Provided to Other Clients.** MSSB, 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., investment managers and their affiliates receive compensation and fees in connection with these services. MSSB believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account. Accordingly, it is likely that securities in an account will include some of the securities of companies for which MSSB, investment managers and their affiliates or an affiliate performs investment banking or other services.

**Restrictions on Securities Transactions.** There may be periods during which MSSB or investment managers are not permitted to initiate or recommend certain types of transactions in the securities of issuers for which MSSB 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 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.** Morgan Stanley & Co. LLC ("MS & Co.") does business with companies covered by its research groups. Furthermore, MS & Co and its affiliates 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 or securities lending transactions on behalf of client accounts through exchanges, electronic communication networks or other alternative trading systems ("Trading Systems"), including Trading Systems with respect to which MSSB or its affiliates may have a direct or indirect ownership interest or right to appoint a board member or observer. 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 best execution for its customers' orders, it is contemplated that MSSB will route certain customer order flow to its affiliates. Currently, MSSB or its affiliates may own over 5% of the equity interests of certain Trading Systems, including BATS Global Markets, Inc., which owns and operates BATS Exchange Inc., BATS Trading Limited and Direct Edge (commonly known as "BATS"); BIDS Holdings LP and BIDS Holdings GP LLC (commonly known as "BIDS"); MTS BOX Holdings Group LLC; Eris Exchange Holdings LLC; Equilend; iSWAP Limited; MTS Associated Markets; MuniCenter (TheDebtCenter, LLC); OTC Deriv Limited; Source Holding Ltd; TradeWeb Markets LLC; and Turquoise Global Holdings Ltd. The Trading Systems on which MSSB trades or effects securities lending transactions 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 affiliates of MSSB own interests and on which MSSB and/or MS & Co. trade 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.

**Transaction-Related Agreements with MS & Co. and Affiliates.** In connection with creating MSSB, certain agreements were entered into between or involving some or all of MSSB, MS&Co 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:

- **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 their affiliates. MSSB has a conflict of interest in offering, recommending or purchasing any such security or other product to or for its investment advisory clients.
- **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.

**MSSB Affiliate in Underwriting Syndicate.** If an affiliate of MSSB is a member of the underwriting syndicate from which a security is purchased, we or our affiliates may directly or indirectly benefit from such purchase.

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

### **Description of Advisory Services**

See Item 4.A above for a description of the services offered in the programs described in this brochure.

### **Wrap Fee Programs**

MSSB acts as the sponsor of the program described in this brochure. MSSB receives all the fees described in this brochure. MSSB pays CIO managers from the fees that it collects from clients. Client bears their proportionate share of the expense ratio embedded in any mutual funds or ETFs held in their accounts.

### **Performance-Based Fees**

The program described in this brochure does not charge performance-based fees.

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

MSSB Financial Advisors in the program described in this brochure may use any investment strategy when providing

investment advice to you. Financial Advisors may use asset allocation recommendations of the Morgan Stanley Wealth Management Global Investment Committee or the Custom Investment Outsourcing Committee (the “CIO” Committee”) as a resource but, if so, there is no guarantee that any strategy will in fact mirror or track these recommendations. The CIO Committee is composed of various MSSB investment professionals. Its recommendations will be targeted to the CIO program and may at times differ from the recommendations of the MSSB GIC. Investing in securities involves risk of loss that you should be prepared to bear.

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

If you have a CIO account you may elect to:

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

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

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

### **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 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 Smith Barney and/or Citigroup Global Markets Inc. (“CGM”) are predecessor broker-dealer firms of MSSB.

- 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 Financial Advisor 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 Financial Advisor 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 Financial Advisor 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 Financial Advisor 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 Financial Advisor 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 Financial Advisor.

- 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 LAWEC 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 ("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 Registration.** As well as being a registered investment advisor, MSSB is registered as a broker-dealer.

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

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

These restrictions may adversely impact client account performance.

See Item 6.B above for conflicts 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 ERISA or other retirement accounts, MSSB rebates or offsets fees so that MSSB complies with IRS and Department of Labor rules and regulations.

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

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

Morgan Stanley 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.

## Code of Ethics

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

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

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

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

See Item 6.B above.

## Reviewing Accounts

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

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

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

### **Client Referrals and Other Compensation**

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

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

greater or less than 25% depending on the facts and circumstances of the relationship.

### **Financial Information**

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

MSSB does not have any financial conditions that are reasonably likely to impair its ability to meet its contractual commitments to clients. MSSB and its predecessors have not been the subject of a bankruptcy petition during the past ten years.

## Exhibit A

### Tax Management Terms and Conditions

**(These Tax Management Terms and Conditions apply only to clients who have notified their Financial Advisor that they have elected Tax Management services)**

#### A. INTRODUCTION

Morgan Stanley Smith Barney LLC ("MSSB") is the sponsor of the Custom Investment Outsourcing ("CIO") program. Tax Management Services, as described in these Terms and Conditions ("Tax Management Services"), are available for CIO accounts. In order to receive Tax Management Services, the CIO client ("Client") must tell the Client's Financial Advisor that the Client desires Tax Management Services, and what Maximum Tax and Realized Capital Gain Instructions (see B. Below) the Client desires for the Client's CIO account (the "Account"). In that event, these Tax Management Terms and Conditions will govern Tax Management in the Account. Tax Management Services enable Client to instruct MSSB to seek to limit net realized capital gains (which are taxable for many investors) from transactions in equity securities in the equity separate account sleeve(s) (as well as in transactions in certain exchange traded funds ("ETFs") and mutual funds) in the Account", as and to the extent described in this form. Overlay Manager incorporates the instructions provided on this form (the "Instructions") into the Tax Management Services it provides until Client or MSSB terminates the Tax Management Services or changes these Instructions by notifying Client's MSSB Financial Advisor or Private Wealth Advisor (collectively, "Financial Advisor").

Please review all Sections of this form carefully for important information about Tax Management Services, including the significant limitations and increased risk of loss associated with Tax Management Services. Tax Management Services do not constitute a complete tax-sensitive management program and neither MSSB, Overlay Manager nor any of their affiliates, provides tax advice or guarantees that Tax Management Services will produce a particular tax result. Client should consult a tax advisor in deciding whether to sign up for Tax Management Services, what Instructions to provide in Section B below, and whether, when and how to update such Instructions.

#### B. MAXIMUM TAX AND REALIZED CAPITAL GAIN INSTRUCTIONS FOR THIS ACCOUNT

**Client must provide a mandate by notifying the Client's Financial Advisor, per the Instructions listed below in this Section B.** Utilize Instruction (1), (2) or (3) below by notifying the Financial Advisor of the desired dollar amount(s) for each Instruction. Carefully review all Sections of this form for important related information, including the significant limitations and increased risk of loss associated with Instructions.

1. **Maximum TAX BILL Instruction** (Based on Assumed Tax Rates) -- Each calendar year, seek to limit Federal tax bill from net capital gains realized in the Account to the amount specified to the Financial Advisor. For this purpose, calculate tax using assumed tax rates of 43.4% for short-term gains and 23.8% for long-term gains. Because actual Client tax rates may vary from the assumed tax rates in this Instruction (for example, because of state and local taxes and/or alternative minimum tax), actual Client tax liability from realized gains may exceed any dollar amount specified in this Instruction.
2. **Maximum NET GAIN Instruction** -- Each calendar year, seek to limit the aggregate of net short-term and long-term gains realized in the Account realized in the Account to the amount specified to the Financial Advisor.
3. **Maximum NET SHORT-TERM AND LONG-TERM GAIN Instructions** -- Each calendar year, seek to limit net short-term gains and net long-term gains realized in the Account to the amount specified to the Financial Advisor. If no short-term or long-term gain limit is desired, the accounts will trade without consideration to gains but will be included in quarterly and annual tax loss selling as described in Section C-3.

#### C. CERTAIN IMPORTANT SERVICE FEATURES AND OTHER DISCLOSURES

1. **Limited Scope of Tax Management Services.** Tax Management Services do not: (a) affect management of any fixed income separate account sleeve included in Client's Account; or (b) consider dividends in Client's Account or any assets, transactions or other activity outside the Account.
2. **Changes to Tax Management Instructions.** A future change in Client's tax status and/or other tax-related developments, including gains or losses outside Client's Account, may prevent the Tax Management Services from producing the tax-related effects Client desires and may make it advisable for Client to change the Instructions provided on this Form. Client should contact Client's MSSB Financial Advisor to make any changes in the Instructions. Unless MSSB requires written notice of changes in these Instructions, Client may provide MSSB with oral notice of any such changes.

4. **Tax-Loss Selling.** For the purposes of these Instructions, “Wash Rule Eligible” securities shall be equity, ETF and mutual fund securities in the Client’s Account for which a capital loss could be realized as a result of a sale, under the US Internal Revenue Service “wash sale rules”. In identifying Wash Rule Eligible securities, Overlay Manager will consider only identical securities, and only transactions in securities that take place in the Client’s Account. Overlay Manager will seek to identify Wash Rule Eligible Securities, but does not guarantee the accuracy of its identification. If net gains realized during a calendar year represent two (2) percent or more of the value of Client’s Account fifteen (15) days prior to the last day of any of the first three calendar quarters in such year, Overlay Manager will sell Account equity positions then held at a dollar loss of \$100 or more, within the following five (5) business days to the extent needed (and available) to realize losses offsetting such realized net gains plus an additional loss of \$3000. If any net gains are realized as of fifteen (15) days prior to the last day of the calendar year, Overlay Manager will, within the following five (5) business days, sell (a) Account equity positions then held at a dollar loss of \$100 or more, and (b) Account mutual fund and ETF positions then held with a percentage loss of 3% or more, to the extent needed (and available) to realize losses offsetting such realized net gains plus an additional loss of \$3000. In effecting such sales, Overlay Manager will give first priority to selling any Wash Rule Eligible security positions that are not recommended as part of the selected Investment Portfolio (“Non-Model Securities”) and second priority to selling Wash Rule Eligible security positions that are recommended as part of such Portfolio (“Model Securities”). In each case, the position with the largest dollar loss will be sold first. Notwithstanding the foregoing, Overlay Manager will not sell any position for the purpose of realizing a loss as provided in this Section C.3, in a Client’s Account with an inception date more recent than 23 calendar days prior to the last day of the current calendar quarter. This approach may result in (a) the Account’s holdings of Model Securities varying significantly from the recommendations of the Sub-Manager(s) selected for the Account, and (b) the Account missing future gains on securities sold in accordance with the foregoing.
5. **Wash Sale Rules.** Tax Management Services will attempt to prevent certain wash sale violations. If a security is sold at a loss, the security will not be re-acquired for a separate account sleeve of the Account within thirty (30) days after the date of sale. If the sold security is, or after the sale becomes, a Model Security, such security will be purchased for the Account after such thirty (30) day period expires, if it is then still a Model Security. During the tax loss selling periods, Overlay Manager will seek to invest the sale proceeds in an ETF representing a broad portion of the applicable security market (may be predominantly or wholly U.S.). In the event that an ETF cannot be purchased without violating wash sale rules, the sale proceeds will remain in cash. Thirty-one (31) days after the sale, Overlay Manager will sell any such ETF without regard for any Instruction and, to the extent then consistent with the selected Investment Portfolio, invest the proceeds in the Model Security originally sold at a loss.
6. **Client Withdrawals, Fee Payments & ETFs.** If sale transactions needed to generate funds for Client withdrawals or Account fee payments would result in realized net gains exceeding an applicable Instruction, Overlay Manager will generate funds for such withdrawals and payments by giving first priority to selling any Wash Rule Eligible Non-Model Security positions that are not held at a gain; second priority to selling Wash Rule Eligible Model Security positions that are held at a loss (largest dollar losses are realized first); third priority to selling any Wash Rule Eligible Non-Model Security positions held at a gain (largest dollar gains are realized first); and fourth priority to selling Wash Rule Eligible Account Model Security positions as needed to eliminate any overweights in such positions (largest overweights are eliminated first). This approach may result in the Account’s realization of net gains that exceed an applicable Instruction and also may result in the Account’s holdings of Model Securities varying significantly from the recommendations of the Sub-Manager(s) selected for the Account. In addition, an Instruction will not be applied to sales of ETFs acquired and temporarily held at Client direction in connection with a Client-directed sale of an individual equity security. Overlay Manager sells ETFs in this situation regardless of whether the sales result in realized gains.
7. **Increased Risk of Loss.** Tax Management Services involve an increased risk of loss because they may result in the Account not receiving the benefit (e.g., realized profit, avoided loss) of securities transactions and/or rebalancings that would otherwise take place in accordance with investment decisions of Overlay Manager or MSSB and investment recommendations of Sub-Managers selected for the Account. For example, if at any point during a calendar year, sales of securities in the Account’s equity separate account sleeve(s) during such year have resulted in the specified maximum tax (calculated using the assumed tax rates) or net capital gains, no more net capital gains will be realized in the Account during the remainder of the year (unless offsetting losses are first realized). This may result in recommended security sale and/or purchase transactions and/or rebalancings made for other client accounts not being effected for Client’s Account. Any tax-related benefits that result from Tax Management Services may be negated or outweighed by investment losses and/or missed gains (realized and unrealized) that also may result.
8. **Delayed Transactions.** A transaction that is not effected for the Account when made for other client accounts because of an Instruction will be implemented for the Account when the transaction is no longer inconsistent with the Instruction, if the transaction is then consistent with the applicable Sub-Manager’s model portfolio or the rebalancing decisions of MSSB or Overlay Manager. If multiple transactions not effected because of an Instruction simultaneously become consistent with the Instruction, priority is given to effecting the largest such transaction, followed by the next largest and so on.
9. **Funding Account with Securities.** Client may fund the Account in whole or in part with equity and/or fixed income securities acquired outside the Account (“Transferred Securities”). Funding the Account with Transferred Securities could

result in the Account being invested in a concentrated number of securities. Client understands and acknowledges that when an Account is invested in a concentrated number of securities, a decline in the value of these securities would cause the value of the Account to decline to a greater degree than that of a less concentrated portfolio. Overlay Manager will sell each Wash Rule Eligible Transferred Security promptly after it is transferred into the Account and invest the proceeds in accordance with the Investment Portfolio selected for the Account, unless and to the extent that (a) the Transferred Security is then recommended as part of such Portfolio, or (b) subject to the 50% limitation described below, the sale of the Transferred Security would be contrary to an applicable Instruction. The aggregate value of Transferred Security positions that are Non-Model Securities may not exceed 50% of the Account's value at Account inception or any later time a Non-Model Security is transferred into the Account. If this limitation is exceeded, Overlay Manager will notify MSSB and MSSB will attempt to notify Client orally or in writing so Client can take action to bring the Account into compliance with the 50% limitation. If no such action is taken and the limitation is still exceeded sixty (60) calendar days later, Overlay Manager will sell as much of the Account's Non-Model Security positions as is necessary to bring the Account into compliance with the limitation, without regard for any gains that may be realized. Overlay Manager will sell the Account's largest Non-Model Security position first, then the next largest Non-Model Security position, and so on.

10. Certain Non-Model Security Disclosures. (a) Account fees payable by Client will be based in part on the value of any Non-Model Security held in an equity separate account sleeve of the Account; and (b) No discretionary or non-discretionary advice as to the investment merits of continuing to hold a Non-Model Security will be provided as part of the CIO program and thus there will be an increased risk of loss associated with holdings of Non-Model Securities—the larger any such holding, the greater such risk of loss. Holding Non-Model Securities in a Client Account may adversely impact investment performance.
11. Tax Lot Sales Prioritization. When selling a security that is held in two or more tax lots, Overlay Manager will sell the highest-cost Wash Rule Eligible tax lot first, regardless of whether the securities in that lot have been held for one year or more—i.e., regardless of whether any gain or loss is long-term or short-term. There may be situations where this approach results in greater tax liability than would result from an approach that considers holding periods.

#### **D. CLIENT ACKNOWLEDGMENT AND AGREEMENT**

Client selects Tax Management Services, as described in this form, for the Account and acknowledges and agrees that: (i) Client has read, understands and accepts this entire form, including without limitation the Instruction(s) given in Section B above and all risk, service limitations and other disclosures included in Sections A, B, C and D of this form; (ii) this form supersedes and replaces any Tax Management Services form previously provided, or tax management instructions previously given, by Client for the Account designated below; (iii) Tax Management Services do not constitute tax advice or a complete tax management program; (iv) neither MSSB nor any of its employees and affiliates provide tax advice, tax planning advice or legal advice; (v) the Tax Management Services are based on, and depend substantially on, information and instructions provided by Client, which information and instructions are the Client's sole responsibility; (vi) in providing the Tax Management Services, MSSB will rely on the information provided by Client on this form, and to the extent such information is inaccurate or incomplete, the Tax Management Services provided may be adversely affected; (vii) there is no guarantee that the Tax Management Services will produce the desired tax results; (viii) the Tax Management Services may result in the Account not receiving, in whole or in part, the benefit (e.g., realized profit, avoided loss) of rebalancing and/or securities transactions that would have been effected if Client had not selected Tax Management Services for the Account; (ix) the Tax Management Services may cause the composition and performance of the Account to vary significantly from the composition and performance of other client accounts, including without limitation accounts for which Tax Management Services have not been selected; (x) any tax benefits resulting from Tax Management Services may be exceeded or outweighed by investment losses and/or missed gains (realized and unrealized) that also result from Tax Management Services; (xi) Client understands and accepts the Tax Management Services and their associated risks, including without limitation the increased risk of loss associated with any Instructions given by Client in Section B of this form; (xii) Client has concluded that the Tax Management Services are appropriate for Client's circumstances and (xiii) MSSB may amend this form, or terminate Tax Management Services with respect to Client's Account, by giving written notice to Client.

MSSB does not provide tax or legal advice. Any taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

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

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

**Sweep Vehicles in Retirement Accounts and CESAs**

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

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

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

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

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

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

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 defined under ERISA) 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 as of February 12, 2015, 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%	0.18%
Active Assets Government Securities Trust	0.45%	0.10%	0.12%	0.67%	0.08%
Active Assets Institutional Government Securities Trust	0.10%	None	0.07%	0.17%	0.17%
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%	0.19%
Morgan Stanley U.S. Government Money Market Trust	0.35%	0.10%	0.10%	0.55%	0.10%