

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

Global Investment Solutions Program

**July 1, 2015**

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

**Additional information about MSSB also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the SEC does not imply a certain level of skill or training.**

## Item 2: Material Changes

This section identifies and discusses material changes to the ADV Brochure since the version of this Brochure dated March 28, 2014. For more details on any particular matter, please see the item in this ADV Brochure referred to in the summary below.

**Additional Strategies Available; GIS in Select UMA.** On September 25, 2014, a new investment strategy was added to the Global Investment Solutions (“GIS”) program: Strategic 10 Dividend Strategy, which is currently offered only as an investment product in the MSSB Select UMA® program. Some GIS equity strategies are offered only in the GIS program, some strategies are offered only in the Select UMA program, and some strategies are offered in both programs. (Items 4.A and 6.C).

**Subadvised Fixed Income Strategies Closed to New Investors.** As of March 02, 2015, fixed income strategies managed by third party Subadvisors are closed to new investors in the GIS program. Existing investors in the GIS program may continue to invest in these strategies. New investors that wish to invest in these strategies should contact their Financial Advisor. (Items 4.A and 6.C).

**Account Opening.** Effective April 20, 2015, Morgan Stanley will discontinue use of the GIS program agreement for opening new GIS accounts, and will implement a new form of Single Advisory Contract which will be used to open new GIS accounts. You will receive the new form of Single Advisory Contract at any time that you change Consulting Group programs or open a new Consulting Group account on or after April 20, 2015. The new form of Single Advisory Contract that you receive will be in place of the Program Agreement referred to in any Single Advisory Contract you signed prior to April 20, 2015, and will include relevant information on the Consulting Group program(s) you select. The new form of Single Advisory Contract that you receive will amend any Single Advisory Contract that you signed, in accordance with its terms.

The new form of Single Advisory Contract covers additional Consulting Group programs, including GIS and Alternatives Investments Advisory. (Item 4.A).

**Fees.** Effective July 1, 2014 there is a minimum annual MSSB Fee (calculated quarterly) for each Global Investment Solutions account that was opened after June 30, 2009. This minimum is the lesser of 2% or \$250 per year. This minimum will not apply to any account that (when added to any other Consulting Group accounts with which it is related for billing purposes) has a total of \$500,000 or more in assets as of the end of the previous billing quarter. (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 (“client”, “you” and “your”) many different advisory programs. Many of MSSB’s advisory services are provided by its Consulting Group business unit. Other advisory services are provided by the Morgan Stanley Private Wealth Management division, which is also part of MSSB. You may obtain ADV Brochures for other MSSB investment advisory programs at [www.morganstanley.com/adv](http://www.morganstanley.com/adv) or by asking your Financial Advisor or (for Morgan Stanley Private Wealth Management clients) your Private Wealth Advisor. (Throughout the rest of this Brochure, “Financial Advisor” means either your Financial Advisor or your Private Wealth Advisor, as applicable.)

Unless you selected an external custodian, all clients’ assets are held in custody at MSSB (except for “sweep” assets, which are held in custody at the Sweep Banks pursuant to the Bank Deposit Program). Please see Item 4.A (Services, Fees and Compensation, General Description of Programs and Services, Custody) and Item 4.C (Services, Fees and Compensation, Additional Fees, Cash Sweeps, Bank Deposit Program) below, for more information.

### A. General Description of Programs and Services

In the Global Investment Solutions (“GIS”) program, dedicated portfolio managers employed by MSSB (“GIS Portfolio Managers”) or third party subadvisors (“Subadvisors”) make day-to-day investment decisions for clients’ accounts invested in various investment strategies. Also, in certain situations MSSB may provide model portfolios (“Model Portfolios”) to MSSB clients (“Model Recipients”). These Model Recipients (which are investment advisory clients of MSSB) may utilize the Model Portfolios in connection with providing services to their own clients (the “Model Recipients’ Clients”). The Model Recipients’ Clients are not investment advisory clients of MSSB.

Several professionally managed strategies are available and are designed to fit a broad range of goals, diversification objectives and risk tolerance levels. Each team of GIS Portfolio Managers or Subadvisor focuses on particular asset classes and investment approaches. In addition to portfolio management, the GIS program provides consulting, custody, brokerage and performance reporting. Please see Item 6.C below (Portfolio Managers, Methods of Analysis and Investment Strategies), for more information.

MSSB, as investment manager for the GIS program, may change between internal management and Subadvisors, or change the Subadvisor, in any strategy and in any client account. When MSSB appoints a Subadvisor, MSSB enters into a contract with the Subadvisor and pays the Subadvisor out of the fees that the client pays to MSSB.

Currently, the equity and any balanced accounts, and some fixed income accounts in the GIS program are managed by GIS Portfolio Managers. Most fixed income accounts are managed by a Subadvisor. As of March 02, 2015, fixed income strategies managed by a Subadvisor described in Item 6C below (“Subadvised Strategies”) are closed to new investors in the GIS program. Existing investors in the GIS program may continue to invest in the Subadvised Strategies. New investors that wish to invest in the Subadvised Strategies should contact their Financial Advisor.

Client accounts are generally referred to GIS Portfolio Managers or Subadvisors through the client’s Financial Advisor. The GIS strategies may be customized for your account based on information you provide about your financial situation, investment objectives and reasonable restrictions.

Depending on their particular strategy, GIS Portfolio Managers and Subadvisors may be able to invest in a broad range of securities and financial instruments, including equity securities, warrants, debt securities, commercial paper, certificates of deposits, municipal securities, U.S. government securities, options contracts, futures contracts, private investments in private real estate related companies, and limited partnerships (including master limited partnerships and limited partnerships for whom certain MSSB affiliates act as general partner and investment adviser). GIS Portfolio Managers and Subadvisors may provide advice with respect to securities issued by foreign governments, agencies and corporations.

GIS Portfolio Managers and Subadvisors may provide advice with respect to a wide variety of instruments generally referred to as derivatives (including forward contracts on securities and foreign currencies, swaps, structured notes, caps, collars, floors, equity-linked securities and liquid yield option notes). GIS Portfolio Managers and Subadvisors may use derivatives consistent with their focus on managing the expected return and the risk exposure of the overall portfolio.

GIS Portfolio Managers and Subadvisors are limited to investing in the types of investments available in the GIS program. The types of investments available may depend, among other things, on whether your account is a PWM account (as defined below).

GIS Portfolio Managers and Subadvisors 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, as amended (“ERISA”) and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”)), and an “investment manager” (as that term is defined in Section 3(38) of ERISA) with respect to “Retirement Accounts,” as that term is defined herein. In addition, GIS Portfolio Managers and Subadvisors will be Qualified Professional Asset Managers, as defined in Department of Labor Prohibited Transaction Class Exemption 84-14 with respect to Retirement Accounts. 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 (iii) Coverdell Educational Savings Accounts (“CESAs”).

"Global Investment Solutions" is also the name of an initiative (which is not described in this Brochure), that seeks to harness the collective resources of Morgan Stanley to deliver innovative financial products to our clients.

### **Integration of Account Opening Platforms; Account Opening Process**

Prior to May 28, 2013, we opened GIS accounts on two different operating platforms: the Core Consulting Group platform ("Core Consulting Group Platform") and the Private Wealth Management platform ("PWM Platform"). These platforms ran on different computer systems, had different custody arrangements and used different processes in some respects. On May 28, 2013, all accounts on the PWM Platform transitioned to the Core Consulting Group Platform. Now that this transition is complete, all clients' assets in GIS accounts (other than certain "sweep assets") are custodied at MSSB, unless you have selected an external custodian. Although all GIS accounts are now on the same platform, some GIS accounts are still designated as Private Wealth Management ("PWM") accounts, and different investment strategies and fee schedules are generally available to PWM accounts. PWM accounts are serviced by Private Wealth Advisors.

For a description of investment strategies offered by GIS Portfolio Managers and Subadvisors, see Item 6.C below.

To enroll in the GIS program, you (or, in certain circumstances, your Financial Advisor acting upon your instructions) must complete an investor questionnaire. You must also enter into the GIS program agreement, if you open an account prior to April 20, 2015 or the MSSB Single Advisory Contract ("Single Advisory Contract"), if you open an account after April 20, 2015. The GIS program agreement and the Single Advisory Contract shall be collectively referred to as the "Account Agreement" in this Brochure.

You may also be required to execute a brokerage account agreement. All the terms of the Account Agreement and the brokerage agreement will set forth our mutual obligations regarding the investment advisory program described in this Brochure.

Effective April 20, 2015, Morgan Stanley will discontinue use of the GIS program agreement for opening new GIS accounts, and will implement a new form of Single Advisory Contract which will be used to open new GIS accounts. You will receive the new form of Single Advisory Contract at any time that you change Consulting Group programs or open a new Consulting Group account on or after April 20, 2015. The new form of Single Advisory Contract that you receive will be in place of the Program Agreement referred to in any Single Advisory Contract you signed prior to April 20, 2015, and will include relevant information on the Consulting Group program(s) you select. The new form of Single Advisory Contract that you receive will amend any Single Advisory Contract that you signed, in accordance with its terms.

The new form of Single Advisory Contract covers additional Consulting Group Programs, including GIS and Alternative Investments Advisory.

### **GIS strategies as investment products in the Select UMA ® program**

GIS equity strategies may be offered as investment products in the MSSB Select UMA program. This is available whether you have a Financial Advisor or a Private Wealth Advisor, but is not available in Retirement Accounts. Some GIS equity strategies are offered only in the GIS program, some strategies are offered only in the Select UMA program (see item 6.C below for these strategies), and some strategies are offered in both programs. For more information please see the Select UMA ADV Brochure, which is available at [www.morganstanley.com/adv](http://www.morganstanley.com/adv) or by asking your Financial Advisor.

### **Implementation of Accounts**

***Accounts Implemented by the Private Portfolio Group.*** Except for accounts where the GIS Portfolio Managers provide model portfolios to clients (see below), MSSB's Private Portfolio Group ("PPG") implements:

- some accounts managed by the Applied Equity Advisors team,
- all accounts managed by the Fundamental Equity Advisors team,
- all accounts managed by the Opportunistic Equity team,
- all accounts managed by the Portfolio Advisory Services team and
- GIS strategies in the MSSB Select UMA program.

For these strategies, PPG implements investment instructions from the GIS Portfolio Manager team concerning the securities to buy, sell or hold in client accounts (and determines the number of such securities) according to rules and procedures agreed with the GIS Portfolio Manager team, and places trade orders with broker-dealers selected by PPG. When PPG implements an account, PPG is responsible for implementing any reasonable client restrictions (discussed below).

***Accounts Implemented by Third Party Subadvisors.*** The third party Subadvisors implement their investment decisions directly, for those accounts for which they make the day to day investment decisions.

***Accounts Implemented by Applied Equity Advisors.*** Applied Equity Advisors implements its investment decisions directly for some accounts that it manages, by placing orders for the execution of transactions for those accounts with broker-dealers selected by Applied Equity Advisors. When Applied Equity Advisors implements an account, Applied Equity Advisors is responsible for implementing any reasonable client restrictions (discussed below).

***Accounts Where the GIS Portfolio Managers Provide Model Portfolios to Model Recipients.*** Where GIS Portfolio Managers provide Model Portfolios to Model Recipients, the Model Recipients determine how to implement the Model Portfolios and MSSB has no responsibility for implementation.

### **Investment Restrictions**

You may request reasonable restrictions on the management of your account (may request that certain specified securities, or certain categories of securities, not be purchased for your account). This request may be made orally or in writing, but

MSSB may require that any such request (or any changes to the request) be in writing. MSSB will accept reasonable restrictions on specific common equity and fixed income securities, as well as on certain categories of equity securities (e.g., tobacco companies). MSSB will determine in its reasonable judgment how to implement such restrictions, and may implement restrictions differently in accounts that have elected tax management services (if applicable). If you restrict a category of securities and we are implementing the account investments, we will determine in our discretion which specific securities fall within the restricted category. In doing so, we may rely on outside sources (e.g. standard industry codes, or research provided by independent service providers).

Although we will accept reasonable restrictions as described above, we will not have any obligation to manage your account in accordance with any investment guidelines, policy statements or other documents unless we specifically agree to do so, in writing.

The compliance of any investment with any investment restrictions shall be determined on the date of purchase only, based upon the price and characteristics of the investment on the date of purchase compared to the value of the account as of the most recently preceding valuation date.

### **Trading and Execution Services**

MSSB or a Subadvisor will effect transactions for the purchase or sale of securities and other investments in a client's GIS account. You authorize MSSB or a Subadvisor to effect securities transactions for the account through MSSB, subject to legal requirements of "best execution", your needs, and, if applicable, the requirements of ERISA and the rules and regulations thereunder.

MSSB or a Subadvisor has the authority to effect transactions through broker-dealers other than MSSB, when MSSB or a Subadvisor reasonably believes that such other broker-dealer may effect such transactions at a price, including any commissions or dealer mark-up or mark-down, that is more favorable to the account than would be the case if transacted through MSSB. In addition, even if the price is not more favorable, for the selection of such broker-dealer, MSSB or a Subadvisor may consider all relevant factors, including execution capabilities, speed, efficiency, confidentiality, familiarity with potential purchasers or sellers, or any other relevant matters. MSSB refers to trades on which MSSB is not the executing broker as "step out trades." If MSSB or a Subadvisor trades with another firm, you may be assessed other trading related costs (mark-ups, mark-downs and commissions) by the other broker-dealer. Those costs are in addition to your program fees. For this reason, MSSB or a Subadvisor may find that placing trades with MSSB is often the most favorable trading option for you. For the GIS program, it is expected that many of transactions effected by MSSB will be traded through MSSB. However, the Subadvisors have historically directed most, if not all, their trades to outside broker-dealers. Since the fees paid to MSSB only cover transactions effected through MSSB, transactions through any other broker-dealer would normally include an add-on cost of the commission or the dealer mark-up or mark-down and these additional trading costs may

increase your overall costs. See "Additional Fees" in Item 4.C below for details.

For accounts invested in the Subadvised Strategies, the Subadvisor (and not MSSB) has discretion over broker-dealer selection and execution and is responsible for meeting its best execution obligations to you.

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

If MSSB is the custodian for your account, MSSB provides you with written confirmation of securities transactions, and account statements at least quarterly. You may waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication where available. Even if you have done so, we may deliver trade confirmations after the completion of each trade.

Unless you have appointed another custodian, we provide periodic reviews of your account. These reviews show how your account investments have performed, both on an absolute basis and on a relative basis compared to recognized indices (such as Standard & Poor's indices). You may access these reports through MSSB's online account services site. To enroll your account in the online account service site, please go to <https://www.morganstanleyclientserv.com>, log on and elect "Account Documents." If, however, you would like to receive these reports by mail, please call 1-888-454-3965.

Clients with PWM accounts may elect to receive written PWM performance reports on a monthly basis. These reports contain tabular and graphical displays showing how your investments have performed on an absolute basis and may include a comparison to recognized indices. You may access your PWM account supplemental reports through PWM's online account services site. Additionally, through the online account services site we also provide account performance through the most recent close of business. To enroll in the PWM online account service site, contact your Private Wealth Advisor.

### **Consulting Group Trust Services**

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

To receive trustee services through CG Trust Services, you and your attorney will create separate agreements with an external trust company to govern the trust and you will appoint a trustee to act on your behalf; in certain situations, you may appoint separate administration and investment trustees. You or your designees will sign these separate agreements and may pay a separate fee to your attorney. External trust companies and



MSSB typically charge separate fees to CG Trust Services client accounts for their respective services, which may be higher than fees charged to clients outside of the CG Trust Services program for comparable services. In certain limited circumstances, MSSB will compensate an external trust company for the services it provides to a client account. Neither MSSB nor your Financial Advisor will be paid by the external trust company. In certain circumstances, MSSB or an affiliate may pay compensation to or receive an indirect economic benefit from an unrelated third party (see: "Client Referrals and Other Compensation", Item 9 below).

As part of CG Trust Services, you or your selected trustee, with investment authority, may delegate investment discretion directly to MSSB or receive non-discretionary investment advisory services through the programs offered by Consulting Group. Additionally, *certain* external trust companies have contractually agreed to use the services (including MSSB custody services) described in this Brochure for each CG Trust Services client (and in some cases, former CG Trust Services clients), unless the client has issued contrary instructions, and so long as such use of MSSB services will not cause the external trust company to violate any duty or obligation. Regardless of the external trust company you select, unless you have appointed another custodian, you can custody your assets at MSSB through CG Trust Services. Accounts outside of CG Trust Services may be subject to different custody arrangements.

MSSB has made arrangements to have a number of external trust companies participate in CG Trust Services, as described above. While these arrangements are designed to enhance the administrative and operational experience of clients who appoint such an external trust company and MSSB to service the same assets, these arrangements could pose a conflict of interest for MSSB and its representatives by creating an incentive for them to introduce their clients to those external trust companies that have such arrangements with CG Trust Services over other external trust companies.

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

## **Tax and Legal Considerations**

Switching from one GIS strategy to another, moving from management by a team of GIS Portfolio Managers to management by a Subadvisor (or vice versa), changing Subadvisors, or moving your assets from the GIS program to another type of account, may result in sales of securities and subject you to additional income tax obligations. Consult your independent tax or legal advisor with respect to the services described in this Brochure, as MSSB and its affiliates do not provide tax or legal advice.

Investment in Master Limited Partnership ("MLP") portfolios (including the Fundamental MLP Portfolio (as described in Item 6.C)) entails different risks, including tax risks, than is the case for other types of GIS advisory accounts. Investors in MLPs hold "units" of the MLP (as opposed to a share of corporate stock) and are technically partners in the MLP. Holders of

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

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

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

Although we intend to manage the Fundamental MLP Portfolio and other MLP portfolios so as to maximize tax-deferred income, there is no guarantee that any particular level of tax-deferred income can be achieved.

**For the reasons outlined below, where an otherwise tax exempt account (such as a Retirement Account, charitable organization, or other tax exempt or deferred account) is invested in a pass through entity (such as a MLP), the income from such entity may be subject to taxation, and additional tax filings may be required. Further, the tax advantages associated with these investments are generally not realized when held in a tax-deferred or tax exempt account. Please consult your own tax advisor, and consider any potential tax liability that may result from such an investment in an otherwise tax exempt account.**

Earnings generated inside most qualified retirement plans, including defined benefit pension plans, defined contribution plans and IRAs, are generally exempt from federal income taxes, however, certain investments made by Retirement Accounts may generate taxable income referred to as "unrelated business taxable income" ("UBTI") that is subject to taxation at trust rates. Generally, passive types of income (when not financed with debt) such as dividends, interest, annuities, royalties, most rents from real property, and gains from the sale, exchange or other disposition of property (other than inventory or property held for sale in the ordinary course of a trade or business) do not



generate UBTI. Active income associated with operating a trade or business, however, may constitute UBTI to an otherwise tax exempt investor such as a Retirement Account. In addition, UBTI may also be received as part of an investor's allocable share of active income generated by a pass-through entity, such as partnerships (including limited partnerships and MLPs), certain trusts, subchapter S corporations, and limited liability companies that are treated as disregarded entities, partnerships, or subchapter S corporations for federal income tax purposes.

If more than \$1,000 of unrelated trade or business gross income is generated in a tax year, the Retirement Account's custodian or fiduciary (on behalf of the Retirement Account) must file an Exempt Organization Business Income Tax Return, Form 990-T. With respect to an individual investing through an IRA, in calculating the threshold amount and the Retirement Account's UBTI for the year, each IRA is generally treated as a separate taxpayer, even if the same individual is the holder of multiple IRAs.

The passive activity loss limitation rules also apply for purposes of calculating a Retirement Account's UBTI, potentially limiting the amount of losses that can be used to offset the Retirement Account's income from an unrelated trade or business each year. It should be noted that these rules are applied to publicly traded partnerships, such as MLPs, on an entity-by-entity basis, meaning that the passive activity losses generated by one MLP generally can only be used to offset the passive activity income (including unrelated traded or business income) from the same MLP. The passive activity losses generated by one MLP generally cannot be used to offset income from another MLP (or any other source). The disallowed losses are suspended and carried forward to be used in future years to offset income generated by that same MLP. However, once the Retirement Account disposes of its entire interest in the MLP to an unrelated party, the suspended losses can generally be used to offset any unrelated trade or business income generated inside the Retirement Account (including recapture income generated on the sale of the MLP interest, as well as income generated by other MLPs).

In calculating the tax, trust tax rates are applied to the Retirement Account's UBTI (i.e., unrelated trade or business gross income less any applicable deductions, including the \$1,000 specific deduction). In addition to the passive loss limitation rules noted above, other limitations may apply to the Retirement Account's potential tax deductions. In order to file Form 990-T, the Retirement Account is required to obtain an Employer Identification Number ("EIN") because the plan (and not the plan owner or fiduciary) owes the tax. State and local income taxes may also apply. Accordingly, Retirement Accounts (and their fiduciaries) should consult their tax and legal advisors regarding the federal, state, and local income tax implications of their investments.

Similar rules apply to other tax-exempt organizations (e.g., charitable and religious organizations), except that certain differences may apply. For instance, the UBTI of most other tax-exempt organizations is taxable at corporate rates, unless the organization is one that would be taxed as a trust if it were not tax-exempt in which case its UBTI is taxable at trust rates. Also, the passive activity loss limitation rules do not apply to all tax-exempt organizations. Tax-exempt investors should consult their

tax and legal advisors regarding the federal, state, and local income tax implications of their investments.

## **Custody**

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

***MSSB does not act as the custodian.*** If you have appointed a third party custodian (the "Custodian"), the Custodian will maintain custody of the cash, securities, and other investments in the account, will receive and credit to the account all interest, dividends, and other distributions received on the assets in the account. Such assets will not be included under MSSB's SIPC coverage. Except as indicated below, all other terms of your Account Agreement will apply.

***Fees, Cash Sweeps and Valuation.*** You agree to authorize and instruct the Custodian in writing to deduct the MSSB fee quarterly from your account upon receipt of an invoice from us (if applicable). If you terminate your account, you will receive a pro-rata refund of the fee already paid to us for the remainder of the billing quarter. The provisions regarding fee adjustments for contributions or withdrawals of assets during a billing quarter will not apply to your account. See Item 4A "Fees" below for details. Your Custodian will advise you of the cash sweep options, and section titled "Cash Sweeps" in Item 4C below will not apply to your account.

In computing the fee with respect to your account, we shall rely on information received from your Custodian with respect to the value of assets in the account. If any information to be provided by the Custodian is unavailable or believed to be unreliable, we will value assets in a manner we determine in good faith to reflect fair market value.

***Account Statements and Trade Confirmations.*** You should arrange with the Custodian to provide you and us with account statements at least quarterly, identifying the amount of funds and of each security in the account at the end of the reporting period and setting forth all transactions in the account during that period. MSSB will need to be notified promptly of any other changes in the account. For trades executed through MSSB, we will provide you with copies of confirmations of securities transactions, and we may provide additional periodic reports.

***Liquidations and share class conversions.*** MSSB will not liquidate any fractional share positions of equity securities, closed-end funds or ETFs created in your account. The provisions in your Account Agreement regarding MSSB converting shares of open-end mutual funds in a client's account to an advisory share class will not apply to your account.

MSSB shall have no responsibility or liability with respect to transmittal or safekeeping of the assets in the account or the acts or omissions of the Custodian with respect thereto. You shall direct the Custodian to furnish to MSSB from time to time such reports concerning assets, receipts, and disbursements with respect to the account as MSSB shall reasonably request. You

may designate a replacement custodian upon written notice to us.

MSSB does not assume any responsibility for the accuracy of any reports or other information furnished or made available by you, the Custodian, or any other person or entity (including access to online systems). The Custodian will be liable to you pursuant to the terms of its custodian agreement and any other relevant agreement that relates to Custodian's services to you.

MSSB will not be liable for (i) any failure on your part to fulfill any of your obligations under the Account Agreement, including any misrepresentation or omission with respect to arrangements you must make with, and information and instructions you must provide to, the Custodian; (ii) any failure of the Custodian to follow your or our instructions, including with respect to fee payments, any delivery or receipt securities or payment for securities required; and (iii) any failure of the Custodian to fulfill its obligations, including timely provision of any information that the Custodian is required to provide to us.

By signing the Account Agreement, you have also acknowledged to us that (i) you are authorized to retain the Custodian; (ii) you have instructed and authorized the Custodian in writing to receive and follow instructions from us with respect to the purchase and sale of securities in your account and the payment of the MSSB fee, (iii) that you have authorized and instructed the Custodian to provide us promptly with any information regarding the account that we require to perform our obligations, including pricing information for the securities in the account, and (iv) you have arranged with the Custodian to provide you and us with account statements at least quarterly, identifying the amount of funds and of each security in the account at the end of the reporting period and setting forth all transactions in the account during that period.

**Termination.** Upon termination of your Account Agreement with MSSB, you will instruct the Custodian with respect to the funds and securities held in the account. If you instruct the Custodian to liquidate any securities in the account, you may be subject to taxation on all or part of the proceeds of such liquidation. You understand that, upon termination, it is your responsibility to monitor the assets held in the account, and that we will no longer have any further obligation to act or give advice with respect to those assets.

## Fees

We charge an annual fee for our services in the GIS program ("MSSB Fee" or "fee"), based on the assets under management in your account and payable quarterly. This fee covers MSSB investment advisory services, custody of securities (if MSSB is the custodian), trade execution through MSSB, as well as compensation to any Financial Advisor. This is a wrap fee.

Except as stated below, the maximum annual rates for various account sizes are:

<u>Type of account</u>	<u>Rate (less than \$5 million)</u>	<u>Rate (\$5 million but less than \$10 million)</u>	<u>Rate (\$10 million or more)</u>
Equity (including MLPs)	2.85%	2.80%	2.75%
Tax-enhanced equity	2.75%	2.70%	2.70%
International, Global and Global Inflation Linked fixed income	2.75%	2.75%	2.70%
U.S. Taxable and Corporate fixed income	2.70%	2.70%	2.70%
Tax Advantaged and Crossover fixed income	2.65%	2.65%	2.65%
Liquidity management	2.55%	2.55%	2.55%

If your account meets the stated account size, the rate applies to all assets in your account. This fee consists of two components:

The first component is a management fee charged by MSSB, which pays the costs and expenses of the Consulting Group business unit, including GIS and PPG, as well as the fees that MSSB pays to any Subadvisor (as stated above, Subadvised Strategies are closed to new GIS investors as of March 02, 2015. Existing investors in the GIS program may continue to invest in the Subadvised Strategies). Those expenses may be more or less than the aggregate management fees collected. The maximum annual rates for the management fee component for various account sizes are:

<u>Type of account</u>	<u>Rate (less than \$5 million)</u>	<u>Rate (\$5 million but less than \$10 million)</u>	<u>Rate (\$10 million or more)</u>
Equity (including MLPs) <sup>1</sup>	0.35%	0.30%	0.25%
Tax-enhanced equity <sup>1</sup>	0.25%	0.20%	0.20%
International, Global and Global Inflation Linked fixed income <sup>1</sup>	0.25%	0.25%	0.20%
U.S. Taxable, Corporate fixed income	0.20%	0.20%	0.20%

(subadvised by Chilton)			
U.S. taxable fixed income (subadvised by BlackRock) <sup>1,2</sup>	0.25%	0.25%	0.20%
Tax-Advantaged and Crossover fixed income (subadvised by Chilton)	0.15%	0.15%	0.15%
U.S. municipals (subadvised by BlackRock) <sup>1,2</sup>	0.25%	0.25%	0.20%
Liquidity management	0.05%	0.05%	0.05%

<sup>1</sup> Based on the value when the account is opened or, if applicable, when a Subadvisor becomes responsible for managing the account.

<sup>2</sup> If you selected BlackRock Investment Management, LLC as subadvisor before June 25, 2012, the rates for U.S. municipals are 15 bps regardless of account size, and for U.S. fixed income are 20 bps regardless of account size.

If your account meets the stated account size, the rate applies to all assets in your account.

The second component, at a maximum rate of 2.5%, covers consulting and other services provided by your Financial Advisor.

**Exceptions:** The maximum annual fee rates shown below, for various levels of assets under management, apply if:

- your client agreement was created before May 16, 2011 (even if you do not sign it until after that date), your account was on the PWM Platform and you are investing in a strategy managed by Applied Equity Advisors or a fixed income strategy managed by a Subadvisor or
- after May 16, 2011, you are a PWM client who invested through the Investment Group program (the predecessor program to the GIS program) or the GIS program under the below pricing structure, and you and your Private Wealth Advisor agree that the pricing covering your existing account(s) also applies to a new account you open in the GIS program.

*U.S. Equity Including MLP) Accounts*

First \$3 million	1.50%
Next \$7 million	1.25%
Next \$10 million	1.00%
Over \$20 million	0.80%

*International EAFE or Global Equity Accounts*

First \$5 million	1.50%
Next \$10 million	1.25%
Over \$15 million	1.00%

*U.S. Taxable Fixed Income Accounts*

\$5 million	0.65%
Next \$10 million	0.60%
Next \$10 million	0.55%
Over \$25 million	0.50%

*U.S. Tax-Exempt Fixed Income Accounts*

First \$5 million	0.50%
Next \$10 million	0.45%
Next \$10 million	0.40%
Over \$25 million	0.35%

*U.S. Balanced Accounts*

First \$5 million	1.00%
Next \$5 million	0.90%
Next \$10 million	0.80%
Over \$20 million	0.75%

*U.S. Liquidity Accounts*

First \$50 million	0.20%
Over \$50 million	0.15%

*International or Global Fixed Income Accounts*

First \$5 million	0.75%
Next \$20 million	0.60%
Over \$25 million	0.50%

*International or Global Liquidity/Short Duration Accounts*

First \$50 million	0.25%
Over \$50 million	0.20%

If this exception pricing applies to your account, usually 80% of the fee you pay covers consulting and other services provided by your Financial Advisor or Private Wealth Advisor, and 20% of the fee covers the costs and expenses of the Consulting Group business unit. Your Financial Advisor or Private Wealth Advisor may make more compensation under the exception pricing structure than under the general pricing structure and therefore have an incentive to recommend that you open an account under the exception pricing structure. If a Subadvisor is appointed for your account, this exception pricing ceases to apply and the fee you pay to MSSB is instead split between the two components described above (i.e. a management fee of the amount shown in the management fee table earlier in this "Fees" section, and a component to cover the consulting and other services provided by your Financial Advisor).

Effective July 1, 2014, there is a minimum average annual MSSB Fee (calculated quarterly) for each Global Investment Solutions account that was opened after June 30, 2009. This minimum is the lesser of 2% or \$250 per year. This minimum will not apply to any account that (when added to any other Consulting Group accounts with which it is related for billing purposes) has a total of \$500,000 or more in assets as of the end of the previous billing quarter.

The annual fee for a GIS strategy that may be offered as an investment product in the Select UMA program is 0.30% to 0.35%, depending on the strategy.

**Additions and Withdrawals; Refund on Account Termination.**

You may make additions into the account at any time, subject to our right to terminate the account. Additions may be in cash, securities or investments of any kind, provided that we reserve the right to decline to accept particular securities into the account or impose a waiting period before certain securities may be deposited. We may accept other types of securities for deposit at our discretion. You understand that if mutual funds or exchange traded funds are transferred or journaled into the account, you will not recover the front-end sales charges

previously paid and/or may be subject to a contingent deferred sales charge or a redemption or other fee based on the length of time that you have held those securities.

If you withdraw from or deposit to the account cash or securities (or assets are otherwise removed from or added to the billable assets in the account) with a value equal to or greater than \$5,000, the fee for the remainder of the applicable billing period will be adjusted on a pro rata basis to reflect the withdrawal or deposit. No fee adjustment will be made for withdrawals or deposits of less than \$5,000. No fee adjustment will be made during any billing period for appreciation or depreciation in the value of account assets during that period. Notwithstanding the foregoing, if you are billed in arrears or pay us by annual fixed dollar amounts, or if you elect to use a custodian other than MSSB to custody the assets in your account, the fee adjustment for deposits or withdrawals greater than \$5,000 does not apply to assets held in your account.

Clients who use an outside custodian and wish to get such fee adjustments should contact their Financial Advisor for more information on custodying assets at MSSB.

If the account is terminated by either party, you will be entitled to a prorated refund of any pre-paid fee, based on the number of days remaining in the billing quarter after the date upon which notice of termination is effective.

#### ***Valuation of Account Assets.***

In computing the value of assets in the account, securities (other than mutual funds or exchange traded funds) traded on any national securities exchange or national market system shall be valued, as of the valuation date, at the closing price and/or mean bid and ask prices of the last recorded transaction on the principal market on which they are traded. Account assets invested in funds registered as open-end mutual funds will be valued based on the fund's net asset value calculated as of the close of business on the valuation date, per the terms of the applicable fund prospectus. We will value any other securities or investments in the account in a manner we determine in good faith to reflect fair market value. Any such valuation should not be considered a guarantee of any kind whatsoever with respect to the value of the assets in the account.

In valuing assets, we use information provided by recognized independent quotation and valuation services. We believe this information to be reliable but do not verify the accuracy of the information provided by these services. If any information provided by these services is unavailable or is believed to be unreliable, we will value assets in a manner we determine in good faith to reflect fair market value.

***Fees are Negotiable.*** The overall level of fees you pay for the GIS program is negotiable, based on factors including the type and size of the account and the range of services we provide.

The fee for your account may be higher or lower than the fees that we would charge the account if you had purchased the services covered by the fees separately; may be higher or lower than the fees that we charge other clients, depending on, among other things, the extent of services provided to those clients and the cost of such services; and may be higher or lower than the cost of similar services offered through other financial firms.

***When Fees are Payable.*** The fee is payable as described in the Account Agreement and in this Brochure. Generally, the initial fee is due in full on the date you open your account at MSSB and is based on the market value of the account on that date. The initial fee payment covers the period from the opening date through the last business day of the next full billing quarter and is prorated accordingly. Thereafter, the fee is generally paid quarterly in advance, based on the account's market value on the last business day of the previous billing quarter and is due on the tenth business day of the following billing quarter. The Account Agreement authorizes MSSB (if MSSB is the custodian) to deduct fees when due from the assets contained in the account.

***ERISA Fee Disclosure for Qualified 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 Accounts 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 this Brochure and in your advisory contract with us (including the fee table and other exhibits), 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**

Program fees vary across different programs. You may be able to obtain similar services separately for a lower fee from MSSB or elsewhere. Several factors determine whether it would cost more or less to participate in a program than to purchase the services separately (including the size of your account, the types of investments, whether the investments involve costs in addition to the program fee, and the amount of trading in the account). In addition, you may be able to obtain certain services or gain access to particular securities for a lower fee in one program as opposed to another.

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 a GIS account, you pay us an asset-based fee for our services including, where applicable, custody of securities (if we are the custodian) and trade execution through MSSB, as well as compensation to any Financial Advisor as described above. 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 that (A) we or our affiliates may receive when acting as principal in certain transactions where permitted by law or (B) other broker-dealers may receive when acting as principal in certain transactions effected through us and/or our 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 us or our affiliates
- MSSB account establishment or maintenance fees for IRAs and Versatile Investment Plans (“VIP”), which are described in the respective IRA and VIP account and fee documentation (which may change from time to time)
- account closing/transfer costs
- processing fees or
- certain other costs or charges that may be imposed by third parties (including, among other things, odd-lot differentials, transfer taxes, foreign custody fees, exchange fees, supplemental transaction fees, regulatory fees and other fees or taxes that may be imposed pursuant to law).

## Cash Sweeps

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

- interest-bearing bank deposit accounts (“Deposit Accounts”) established under the Bank Deposit Program (“BDP”) or
- money market mutual funds (each, a “Money Market Fund” and, together with BDP Deposit Accounts, “Sweep Investments”). These Money Market Funds are managed by Morgan Stanley Investment Management Inc. or another MSSB affiliate.

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

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 should read the Exhibit to this Brochure (“Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement”).

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

**Bank Deposit Program.** Through the Bank Deposit Program, Deposit Accounts are established for you at one or more of the following banks (individually and collectively, the “Sweep Banks”): (i) Morgan Stanley Bank, N.A. and/or (ii) Morgan Stanley Private Bank, National Association. The Sweep Banks are affiliated with MSSB. The Sweep Banks pay interest on the Deposit Accounts established under the BDP. Your deposits at the Sweep Banks will be insured by the Federal Deposit Insurance Corporation (“FDIC”) up to applicable limits, in accordance with FDIC rules, and subject to aggregation of all the

accounts (including 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 sites at [http://www.morganstanley.com/wealth-investmentstrategies/pdf/BDP\\_disclosure.pdf](http://www.morganstanley.com/wealth-investmentstrategies/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 with 30 days written notice to you. If you are participating in the Bank Deposit Program, please read the Bank Deposit Program Disclosure Statement carefully.

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

If BDP is your Sweep Investment, you should be aware that 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 Accounts. Also, the affiliated Sweep Banks have the opportunity to earn income on the BDP assets through lending activity, and that income is usually significantly greater than the fees MSSB earns on affiliated Money Market Funds. Thus, MSSB has a conflict of interest in selecting or recommending BDP as the Sweep Investment, rather than an eligible Money Market Fund.

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

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



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

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

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

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

We may offer other money market funds as a non-sweep investment choice. You may purchase shares in these money market funds by giving specific orders for each purchase to your Financial Advisor 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 the Money Market Funds. Therefore, MSSB has a conflict of interest in selecting or recommending the Money Market Funds as your Sweep Investment. For Retirement Accounts with cash balances invested in Money Market Funds sponsored or managed by MSSB affiliates, certain fees received and retained by such MSSB affiliates will be credited to the account or offset against the advisory program fee. Please see the attached Exhibit "Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement" for more details.

The above provisions may not apply if you are not a U.S. resident. If you are not a U.S. resident, please contact your 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.***

You acknowledge that 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.

You understand that 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 assets in the Deposit Accounts 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.

## Funds

If GIS Portfolio Managers or a Subadvisor invests in a collective investment vehicle such as a Money Market Fund, exchange-traded fund or closed-end fund, any such fund may pay its own

separate investment advisory fees and other expenses to the fund manager or other service provider. In both cases, these fees or expenses will be in addition to the fee you pay us. (Money Market Fund fees and expenses are offset against the fee or credited to the account for Retirement Accounts investing in a Money Market Fund. See Exhibit to this Brochure for more details.)

## D. Compensation to Financial Advisors

If you invest in the GIS program, we allocate to your Financial Advisor, on an ongoing basis, part of the fees payable to us in connection with your account. The Financial Advisor may receive different compensation depending on which program and strategy you invest in, and the rate and amount of your fee.

The amount we allocate to your Financial Advisor in connection with GIS accounts may be more than if you participate in other MSSB investment advisory programs, or if you pay separately for investment advice, brokerage and other services. For example, a Financial Advisor may earn more in the GIS program than if you invest with an unaffiliated manager in another of our programs and pay the same overall client fee. ***While the component of the overall client fee allocated to your Financial Advisor is generally subject to the same maximum rates in the GIS program as in unaffiliated manager programs, the payment to unaffiliated managers is usually higher than the management fee component in GIS. Therefore, if your Financial Advisor sets his or her component of the overall client fee at the same level for GIS as for an unaffiliated manager program, your overall client fee would typically be lower in the GIS program. This is true regardless of whether your account is managed by a GIS Portfolio Manager or a Subadvisor. Therefore, if your overall client fee is the same in GIS as in the unaffiliated manager program, generally more of the overall client fee is allocated to your Financial Advisor in the GIS program than in the unaffiliated manager program.***

The compensation we pay Financial Advisors with respect to program accounts may be higher than the compensation we pay Financial Advisors with respect to transaction-based brokerage accounts. Your Financial Advisor may therefore have a financial incentive to recommend the GIS program instead of other MSSB programs or services.

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

## Item 5: Account Requirements and Types of Clients

**Account Minimums.** The account minimums are generally:

- \$100,000 for equity accounts
- U.S. fixed income accounts, U.S. municipal accounts and liquidity accounts: variable depending on the GIS Portfolio Manager or Subadvisor.

We may accept smaller accounts, or impose a higher minimum. If your account falls below the account minimum, we may



require you to deposit additional cash or securities to bring your account up to the account minimum or close the account.

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

## **Item 6: Portfolio Manager Selection and Evaluation**

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

GIS Portfolio Managers are employees of MSSB (or an affiliate). Subadvisors are third party managers that are not affiliated with MSSB. Neither the GIS Portfolio Managers nor the Subadvisors are subject to the same evaluation processes applying to third party managers in many of our other investment advisory programs.

In conducting due diligence on Subadvisors, MSSB considers factors such as personnel, investment process, business and organization characteristics, and investment performance. This due diligence may be different from that in other MSSB advisory programs.

A team of GIS Portfolio Managers or a Subadvisor must be approved by MSSB's Global Products Committee before MSSB offers the associated strategies to clients. The Global Products Committee considers the overall proposal, and operational, information technology, risk, legal, compliance and other factors.

Once a team of GIS Portfolio Managers or a Subadvisor is approved to offer strategies in the GIS program, the Global Investment Solutions Investment Risk, Control and Compliance Committee ("IRCC") oversees various of the team's or Subadvisor's activities, including whether it is implementing each of its strategies consistently with its stated process. GIS Portfolio Managers cannot be IRCC voting members. If the IRCC is not satisfied with the investment management exercised by a team or a Subadvisor, it raises its concern to GIS senior management and ultimately to the MSSB Risk Committee. Senior MSSB business executives also regularly review the GIS business. We may cease to offer strategies in the GIS program for any reason, including if the IRCC raises significant issues that are not satisfactorily resolved or we wish to terminate a strategy for business reasons.

If you are considering investing in the GIS program, your Financial Advisor will help you identify your investment objectives, risk tolerance and investment time horizons (whether by using an investor questionnaire or otherwise). Based on your responses, your Financial Advisor will identify suitable GIS strategies for you in which you may determine to invest all or a portion of the assets in your account. MSSB will reinvest any income from the account as soon as it reasonably practicable, in a manner determined by MSSB unless otherwise instructed by the client. Please discuss with your Financial Advisor any changes in your investment objectives, risk

tolerance or investment time horizons, so that you can consider whether you should remain invested in your GIS strategy or switch to another strategy or investment product in the GIS program or in another program.

### **Calculating Portfolio Managers' Performance**

In the GIS program we present, in reports available to clients, 10 years of performance history for each Applied Equity Advisors strategy. We calculate this performance using asset-weighted monthly performance returns for the GIS Portfolio Managers' composite data. Subadvisors may also present composite performance reports.

We do not have a third party review this composite return data. The GIS Portfolio Managers assign client accounts to performance composites. On a periodic basis, program management personnel review this data to check for consistency between accounts invested in the same strategy. Management reviews any outlier accounts in each strategy to determine the reason for the deviation from the average returns.

### **B. Conflicts of Interest**

#### **Conflicts of Interest – Related Persons of MSSB Acting as Portfolio Managers**

If your account is managed by a team of GIS Portfolio Managers, the portfolio managers are employed by MSSB (or an affiliate), and hence are related persons of MSSB. In this case, MSSB retains the entire client fee you pay in the GIS program. In contrast, in other MSSB investment advisory programs in which an unaffiliated third party manager acts as your portfolio manager:

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

If your account is managed by a Subadvisor, MSSB pays to the Subadvisor some of the fee you pay to MSSB, but generally less than MSSB pays to unaffiliated third party managers managing similar strategies in other investment advisory programs.

For a given level of client fees covering portfolio management and other services, we (and in some cases also your Financial Advisor) earn more:

- if you invest in the GIS program than in our investment advisory programs offering unaffiliated managers or
- if you invest in a GIS strategy managed by a GIS Portfolio Management team than if you invest in a GIS strategy managed by a Subadvisor.

This creates a conflict of interest for Financial Advisors and MSSB, as there is a financial incentive to recommend the GIS program and, within the GIS program, to recommend a strategy managed by a team of GIS Portfolio Managers. We address this conflict of interest by disclosing it to you and by requiring Financial Advisors' supervisors to review your account at account-opening to ensure that it is suitable for you in light of

matters such as your investment objectives and financial circumstances.

### **Other Conflicts of Interest**

As well as the conflicts of interest arising from our employees acting as portfolio managers, we have various other conflicts of interests relating to the GIS program.

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

**Selecting Subadvisors.** MSSB has appointed subadvisors for the fixed income strategies. For U.S. municipal accounts, and U.S. fixed income accounts opened with less than \$10,000,000, MSSB pays different fees to the subadvisor depending on which subadvisor you choose. For the same overall client fee for such an account, MSSB (and your Financial Advisor) make more compensation if you select Chilton Investment Services, LLC (f/k/a/ Chilton Private Clients LLC) as your subadvisor than if you select BlackRock Investment Management, LLC as your subadvisor. Alternatively, if your Financial Advisor sets his or her component of the overall client fee at the same level for such an account regardless of which subadvisor you select, your overall client fee would be lower if you select Chilton Investment Services, LLC as your subadvisor. As stated in Item 4A above, as of March 02, 2015, Subadvised Strategies are closed to new investors in the GIS program. Existing investors in the GIS program may continue to invest in the Subadvised Strategies.

**Different Advice.** MSSB, its affiliates, Subadvisors and their affiliates may give different advice, take different action, receive more or less compensation, or hold or deal in different securities for any other party, client or account (including their own accounts or those of their affiliates) from the advice given, actions taken, compensation received or securities held or dealt for your account. None of MSSB, its affiliates, Subadvisors, or their affiliates have any obligation to purchase or sell, or recommend for purchase or sale, for you any securities or other investments which such parties may recommend, purchase or sell, or recommend for purchase or sale, for its or their own account, or for the account of any other client.

**Trading or Issuing Securities in, or Linked to Securities in, Client Accounts.** MSSB, its affiliates, Subadvisors and their affiliates may provide bids and offers, and may act as principal market maker, in respect of the same securities held in client accounts. MSSB, its affiliates, the managers in its programs, Subadvisors and their affiliates and employees may hold a position (long or short) in the same securities held in client accounts. MSSB 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, MSSB (or an affiliate's)

or a Subadvisor's trading – both for its proprietary account 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.** Your GIS Portfolio Managers may aggregate the securities to be sold or purchased for more than one client to obtain favorable execution to the extent permitted by law. They will then allocate the trade 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 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. Subadvisors may also aggregate securities, as described in their ADV brochures.

**Services Provided to Other Clients.** MSSB and its 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 may be recommended for purchase or sale by clients or are otherwise held in client accounts. MSSB and its 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 or its affiliates perform investment banking or other services.

**Restrictions on Securities Transactions.** There may be periods during which MSSB is 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 have confidential or material non-public information. Furthermore, in certain investment advisory programs, MSSB may be compelled to forgo trading in, or providing advice regarding, Morgan Stanley securities, and in certain related securities. These restrictions may adversely impact your account performance.

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

MSSB and its affiliates are not obligated to effect any transaction that they believe would violate federal or state law, or the regulations of any regulatory or self-regulatory body.

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

**Certain Trading Systems.** MSSB may effect trades 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 non-controlling direct or indirect ownership interest, or right to appoint a board member or observer. If MSSB directly or indirectly effects client trades or transactions through Trading Systems in which MSSB or its affiliates have an ownership interest, MSSB or its affiliates may receive an indirect economic benefit based on their ownership interest. In addition, subject at all times to its obligations to obtain best execution for its customers’ orders, it is contemplated that MSSB will route certain customer order flow to its affiliates. Currently, MSSB and/or its affiliates (including affiliates of MS&Co.) may own over 5% of the equity interests of certain Trading Systems or their parent companies, 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”); BOX Holdings Group LLC; Eris Exchange Holdings LLC; Equilend; iSWAP Limited; MTS Associated Markets; MuniCenter (TheDebtCenter, LLC); OTCDeriv 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 MSSB or its affiliates 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. receives from one or more Trading System may exceed the amount that is charged. Under these limited circumstances, such payments would constitute payment for order flow.

Certain Trading Systems through which MSSB and/or MS&Co. may directly or indirectly effect client trades execute transactions on a “blind” basis, so that a party to a transaction does not know the identity of the counterparty to the transaction. It is possible that an order for a client account that is executed through such a Trading System could be automatically matched with a counterparty that is (i) another investment advisory or brokerage client of MSSB or one of its affiliates or (ii) MSSB or one of its affiliates acting for its own proprietary accounts.

**Payment Arrangements with Private Portfolio Group Vendor.** PPG implements some GIS strategies as described in this Brochure. A vendor which PPG utilizes to provide trade analysis has agreed to reduce the fees it charges to PPG for this trade analysis, in proportion to the number of firms that trade with PPG and who subscribe to the vendor’s services. Although all firms that trade with PPG subscribe to this vendor’s services, this could create a conflict of interest for MSSB in that PPG’s fees paid to this vendor would be further reduced if PPG increased the number of firms it trades with. PPG has not and will not consider this potential reduction in the fees it pays in

any way, either in determining the number of firms it will trade with or in continuing to contract with this vendor.

**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:

- **Order Flow.** An agreement that, subject to best execution, MSSB will transmit a percentage of client orders for the purchase and sale of securities to MS&Co. and its affiliates. MSSB has a conflict of interest in transmitting client orders to these entities.
- **Distribution.** MSSB may market and promote certain securities and other products underwritten, distributed or sponsored by MS&Co. or its affiliates. MSSB has a conflict of interest in offering, recommending or selling any such security or other product to its clients.

**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.

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

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

**Other Investment Products Available.** Client understands that Subadvisors may offer to the public other investment products such as mutual funds with similar investment styles and holdings as the GIS fixed income strategies. Such products may be offered at differing fees and charges that may be higher or lower than the fees imposed by MSSB for the GIS program.

**Other Business with Certain Firms.** Certain investment management firms (which may include Subadvisors) do other business with MSSB or its affiliates.

**Block Trades.** PPG or a Subadvisor may direct some block trades to MSSB for execution, which blocks may include trades for other clients of MSSB and/or PPG or a Subadvisor. Although MSSB executes these block trades at no commission, MSSB may obtain a benefit from executing these block trades, as a result of the increased trading volume attributable to these blocks.

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

## C. Portfolio Managers

### Description of Advisory Services

See Item 4.A above for a description of the services offered in the GIS program.

### Tailoring Services for Individual Clients

You may ask that your GIS account be managed pursuant to a particular investment strategy offered in the GIS program, except that, as of March 02, 2015, Subadvised Strategies are closed to new investors in the GIS program. You may also place restrictions on your account (as discussed above in Item 4.A).

### Wrap Fee Programs

If a team of GIS Portfolio Managers manages your account, MSSB acts as both the wrap fee program sponsor and the portfolio manager in the GIS program, and receives all the client fees for its services provided in the GIS program. If a Subadvisor manages your account, MSSB acts as a wrap fee sponsor and investment manager, but not as portfolio manager, and does not retain all the client fees for services provided in the GIS program.

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

### Performance-Based Fees

The GIS program does not have performance-based fees.

### Methods of Analysis and Investment Strategies

The following teams of GIS Portfolio Managers or Subadvisors offer the strategies listed below. Some strategies are generally only available to PWM accounts. From time to time, to accommodate client requirements, GIS Portfolio Managers or Subadvisors may invest an account in a strategy other than the strategies described below. More detailed information on each strategy is available on request.

### Applied Equity Advisors

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

selections to maximize its desired country, style and sector distribution.

- **Global Concentrated Equity Strategy:** Seeks to achieve long term compounding of returns by investing primarily in a limited number of global, mid-large capitalization equities that (i) appear attractive on a valuation basis and (ii) could demonstrate above-average appreciation potential. This is pursued through a series of quantitative models with a fundamental overlay to identify opportunities. As a majority of a portfolio's return can be defined by its common factors risks, the team believes in a top-down quantitative approach. It uses specific equity selections to maximize its desired country, style and sector distribution.
- **Tax Enhanced Customized Solutions Russell 1000 Portfolio:** Seeks to achieve Russell 1000 index-like returns net of fees and strives to generate active realized losses to achieve an attractive after-tax return. Portfolios hold only a representative basket, selected from the Russell 1000 Index (typically 200-300 securities), normally with an overall tracking error of less than 2% to the underlying index. Holdings are aligned closely with industry, sector, style, capitalization and other factors of the target Russell 1000 index. (The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market capitalization and current index membership. The index represents approximately 92% of the U.S. market.) The team uses quantitative models to (i) identify factors that drive risks and returns for an index universe, (ii) seek to optimize portfolios based on relative risks, tax and tracking-error constraints and (iii) manage existing positions. Portfolios are generally rebalanced monthly to realize losses, when available, and realign within necessary constraints.
- **Tax Enhanced Customized Solutions Russell 3000 Portfolio:** Seeks to achieve Russell 3000 index-like returns net of fees and strives to generate active realized losses to achieve an attractive after-tax return. Portfolios hold only a representative basket, selected from the Russell 3000 Index (typically 200-300 securities), normally with an overall tracking error of less than 2% to the underlying index. Holdings are aligned closely with industry, sector, style, capitalization and other factors of the target Russell 3000 index. (The Russell 3000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 3000 of the largest securities based on a combination of their market capitalization and current index membership. The index represents approximately 98% of the U.S. market.) The team uses quantitative models to (i) identify factors that drive risks and returns for an index universe, (ii) seek to optimize portfolios based on relative risks, tax and tracking-error constraints and (iii) manage existing positions. Portfolios are generally rebalanced monthly to realize losses, when available, and realign within necessary constraints.

## Fixed Income Strategies

Fixed income accounts are managed by a Subadvisor (as described below). As of March 02, 2015, Subadvised Strategies (including the Fixed Income Strategies described in this section) are closed to new investors in the GIS program. Existing investors in the GIS program may continue to invest in the Subadvised Strategies.

### ***BlackRock Investment Management, LLC (Subadvisor)***

BlackRock Investment Management, LLC or one of its affiliates (“BlackRock”) is managing fixed income accounts for which clients indicated that they wanted BlackRock as the Subadvisor. BlackRock is the world’s largest asset manager. BlackRock has expertise in managing the assets of high net worth individuals. BlackRock’s investment philosophy is based on combining risk management with a disciplined process to focus on preservation of principal, current income, high liquidity and reduced volatility. The strategies managed by BlackRock as Subadvisor are as follows:

- ***Short-Term Taxable Fixed Income Strategy:*** This investment strategy seeks total return derived from coupon interest and capital appreciation. It invests primarily in government securities, investment grade corporate bonds and asset-backed securities. These portfolios are expected to have durations of one to three years. An investor selecting this strategy may risk some loss of principal.
- ***Short-Term Municipal Fixed Income Strategy:*** This investment strategy seeks total return derived primarily from coupon interest, and secondarily, capital appreciation. It invests in investment grade municipal securities. These portfolios are expected to have durations of one to four years. An investor selecting this strategy may risk some loss of principal.
- ***Intermediate Taxable Fixed Income Strategy:*** This investment strategy seeks total return derived from coupon interest and capital appreciation. It invests primarily in government securities, investment grade corporate bonds, and asset-backed and mortgage-backed securities. These portfolios are expected to have durations of two to five years. An investor selecting this strategy may risk some loss of principal.
- ***Intermediate Municipal Fixed Income Strategy:*** This investment strategy seeks total return derived primarily from coupon interest, and secondarily, capital appreciation. It invests in investment grade municipal securities. These portfolios are expected to have durations of four to eight years. An investor selecting this strategy may risk some loss of principal.
- ***Fundamental Core Taxable Fixed Income Strategy:*** This investment strategy seeks total return derived from coupon interest and capital appreciation. It invests primarily in government securities, investment grade corporate bonds, and asset-backed and mortgage-backed securities. These portfolios are expected to have durations of three to seven years. An investor selecting this strategy may risk some loss of principal.
- ***Global Fixed Income Strategy:*** This investment strategy seeks total return derived primarily from capital appreciation, and secondarily, coupon interest. It invests in

investment grade fixed income securities of US and foreign governments. It gains currency exposure through investment in non-US dollar denominated government securities. Government securities include securities issued or guaranteed by a government or a government agency or instrumentality. Portfolios also may be invested in securities issued by certain international organizations designated or supported by governments or government agencies to promote economic reconstruction or development. Examples of these include the International Bank for Reconstruction and Development (the World Bank) and the Inter-American Development Bank. Selection of this strategy indicates a willingness to assume the additional risks involved with global investing, particularly currency fluctuations and changes in global interest rates.

- ***Long-Term Municipal Fixed Income Strategy:*** This investment strategy seeks total return derived primarily from coupon interest, and secondarily, capital appreciation. It invests in investment grade municipal securities. These portfolios are expected to have durations of six to ten years. An investor selecting this strategy may risk some loss of principal.

### ***Chilton Investment Services, LLC (f/k/a Chilton Private Clients, LLC) (Subadvisor)***

Chilton Investment Services, LLC or one of its affiliates (“Chilton”) is managing fixed income accounts for which clients indicated that they wanted Chilton as the Subadvisor. Chilton is a private, independent firm formed by Chilton Investment Company, LLC, and provides a broad spectrum of wealth management services primarily to high net worth individuals, trusts, family offices and foundations. Chilton believes in the value of extensive proprietary research to support its decision-making and portfolio construction. Chilton’s investment philosophy for the following strategies is to manage dynamic customized client portfolios on a total return basis, consistent with the risk tolerances, financial aspirations and income needs of each client. The strategies managed by Chilton as Subadvisor are as follows:

- ***U.S. Taxable Strategy:*** This strategy provides exposure to a range of USD-denominated fixed income instruments. The portfolio is diversified mainly across U.S. government, sovereign government, global government agencies, supranational and the global corporate sectors of the market. The portfolio managers make active decisions for this strategy based on assessing macro conditions and its internal credit analysis.
- ***Corporate Bond Strategy:*** This strategy provides exposure to a range of investment grade corporate debentures and other fixed income instruments denominated in USD. The portfolio managers make active decisions for this strategy based on assessing macro conditions and their internal credit analysis.
- ***Tax-Advantaged and Crossover Fixed Income Strategies:*** These strategies offer both state-specific and general market tax-advantaged portfolio options. The Crossover strategy combines both municipal and taxable bonds in a single portfolio.
- ***Tax-Advantaged, Taxable and Crossover Liquidity Management Strategies:*** These strategies provide either

tax advantaged, taxable or a combination of tax-advantaged and taxable alternatives to liquidity needs with a targeted duration of three years or less.

- **International Fixed Income Strategy:** This strategy invests in non-USD denominated fixed income securities with the goal of diversifying exposure across various currencies and interest rate curves. The process is both top-down and bottom-up value driven, seeking to take advantage of global trends while using currency exposure to enhance return potential and diversification.
- **Global Fixed Income and Global Government Strategies:** These strategies invest in global fixed income securities in an effort to diversify exposure across various currencies and interest rate curves. The process is both top-down and bottom-up value driven, seeking to take advantage of global trends while using currency exposure to enhance our return potential and diversification.
- **Global Inflation-Linked Strategy:** This strategy provides exposure to fixed income instruments that offer the possibility of protection against adverse inflationary pressure.

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

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

team manages equity portfolios by focusing on companies possessing strong free cash flow, attractive valuations, profit margin opportunities and changing internal dynamics. Individual security selection is based on, but not limited to, a careful analysis of a company's financial flexibility, earnings quality, valuation, business model and competitive position. The team also evaluates broader industry trends, relative growth and current investor expectations, in an effort to determine a proposed investment's "margin of safety" and risk/reward profile. The team monitors risk at both the portfolio and individual security level, with a focus on bottom-up securities analysis.

- **Fundamental MLP Portfolio:** Seeks to identify undervalued equity opportunities by investing in Master Limited Partnerships (MLPs), which may include both Limited Partner and General Partner units. The objective of the portfolio is to provide investors with high current income and above-average distribution growth prospects, as well as significant tax-deferred income, by investing in MLP securities that are concentrated in the energy and natural resources sector. Specifically, it is anticipated that the portfolio will be primarily composed of units of companies operating as MLPs, and that the portfolio will focus on MLPs that operate as "toll-collectors" in the energy and natural resources industry by generating cash flow from activities such as the transportation, gathering, processing and storage of hydrocarbons, including natural gas, crude oil and refined petroleum products. The performance benchmark for the portfolio will be the Alerian MLP Index. The Fundamental MLP Portfolio is not available to Retirement Account investors.

The Fundamental Equity Advisors team has been managing client accounts since December 2010. Before managing client assets, the team created two model portfolios (the Equity Model Portfolio, in 2002, and the Small & MidCap Equity Model Portfolio, in 2004) and maintained these models through September 2010. The strategies offered by the team in the GIS program are different from these model portfolios.

#### **Opportunistic Equity.**

- **Opportunistic US Equity Strategy:** This is an actively managed US equity strategy that seeks to outperform the S&P 500 Index. The portfolio primarily invests in mid and large capitalization US equities and exchange-traded funds ("ETFs"). The product includes a core component that is implemented using individual equity securities (30-35 names) and an overlay component that is implemented using ETFs. The core component is expected to have a slight quality-bias relative to the S&P 500 over a market cycle, but will be active from a sector allocation perspective. The ETF overlay allocation will be driven by our proprietary Alpha Driver research process. This process identifies factors, styles and sectors that we expect to outperform the broad market over the next 12 months.

#### **Portfolio Advisory Services.**

- **Multi-Manager Alternatives Strategy:** (Currently offered only as an investment product in the Select UMA program.) This is an actively managed strategy that invests in mutual funds and ETFs that are generally registered under the Investment Company Act of 1940, as amended, that seek to

pursue alternative investment strategies or returns. This Strategy's primary objective is capital appreciation, and it seeks to deliver a long term risk and return profile similar to the strategies employed by a diversified universe of hedge funds.

### Strategic Portfolios.

- **Strategic 10 Dividend Strategy** (Currently offered only as an investment product in the Select UMA program.) This is an actively managed strategy that seeks as its primary investment objective long-term capital appreciation. The portfolios are individually managed using a disciplined approach (the "Discipline") to identify and maintain a select portfolio of stocks from the 30 components of the Dow Jones Industrial Average (the "Index"). The Discipline uses dividend yield as the primary criterion for portfolio selection. Generally, the Discipline invests in the ten highest-yielding stocks in the Index. Individual accounts are invested on a daily basis (as clients select the Strategic 10 Dividend Strategy for their accounts), purchasing the ten highest-yielding stocks in the Index as of the time of the immediately previous re-balance for the Strategy (i.e., on or around the beginning of that calendar year). Accounts are generally restructured and rebalanced annually, on or around the beginning of each calendar year. Generally, a full year will elapse before the next rebalancing (to allow for long term capital gain treatment). There may be some circumstances when MSSB will deviate from the Discipline and make adjustments to the portfolios. Applicable law or regulation may prohibit MSSB from purchasing the stock of Morgan Stanley or affiliates, or securities where MSSB affiliates are performing investment banking or other services, for portfolios if such securities were to meet the selection criteria described above. In such event, MSSB may substitute one or more other stocks (for example, the 11th highest-yielding stock in the Index) for the stock(s) that it is unable to purchase, and/or increase the weightings of the remaining stocks that fit the Discipline's selection criteria.

### Risks

Investing in securities involves risk of loss that you should be prepared to bear. The value of the assets in your account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. We do not guarantee performance, and past performance does not predict your account's future performance. There are material risks involved in investing in any of the above strategies, depending on the investment style, investment process, asset classes in the strategy and other factors:

- Investing in **stocks** entails the risks of market volatility. The value of all types of stocks may increase or decrease over varying time periods.
- In general, as prevailing interest rates rise, **fixed income securities** prices fall. **High yield bonds** are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.
- An investment in an **exchange-traded fund** involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant

securities market, including market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock prices. An ETF that is designed to track an index may deviate from that index to some extent. The investment return and principal value of ETF investments fluctuate, so that ETF shares, if or when sold, may be worth more or less than the original cost.

- Many **closed-end funds**, unlike open-end funds, are not continuously offered. For such funds, there is a one-time public offering and, once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value (NAV) is total assets less total liabilities divided by the number of shares outstanding. At the time of sale, your shares may have a market price that is above or below NAV. There is no assurance that the fund will achieve its investment objective. The fund is subject to investment risks, including possible loss of principal invested.
- Master Limited Partnerships ("MLPs") are limited partnerships or limited liability companies whose interests (limited partnership or limited liability company units) are generally traded on securities exchanges like shares of common stock. Investment in MLPs entails different risks, including tax risks, than is the case for other types of investments.

Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in such MLP interests are subject to the risks generally applicable to companies in the energy and natural resources sectors (including commodity pricing risk, supply and demand risk, depletion risk and exploration risk). The Fundamental MLP Portfolio is especially susceptible to these risk factors because it is anticipated that most or all of the portfolio securities selected will be issued by companies in the energy and natural resources sector. Depending on the ownership vehicle, MLP interests are subject to varying tax treatment. Please see "Tax and Legal Considerations" above and any mutual fund or ETF prospectus, for more information. You may obtain any mutual fund or ETF prospectus by asking your Financial Advisor.

- **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.
- **International securities** have additional risks, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes and differences in financial and accounting standards. International investing may not be for everyone. These risks may be magnified in emerging markets.
- **Small capitalization** companies may lack the financial resources, product diversification and competitive strengths of larger companies. The securities of small capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.



- Strategies that invest a large percentage of assets in only **one industry sector (or in only a few sectors)** are more vulnerable to price fluctuation than strategies that diversify among a broad range of sectors. Industry concentration is a particular risk for the Fundamental MLP Portfolio and other MLP portfolios as it is anticipated that most or all of the securities selected for it will be issued by companies engaged in the energy and natural resources business.
- When strategies invest in **a concentrated number of securities**, a decline in the value of these securities would cause your overall account value to decline to a greater degree than that of a less concentrated portfolio.
- A **tax enhanced strategy** may not be able to deliver realized losses because there are none to take, this would materially impact tracking error (against the benchmark index) or the tracking error would not be consistent over time. Quantitative efforts to identify and correct biases may not reduce, but may increase, tracking error.
- **Risks Relating to Mutual Funds and ETFs that Primarily Invest in Master Limited Partnerships.** In addition to the risks outlined above relating to Master Limited Partnerships, mutual funds and ETFs that primarily invest in MLPs generally accrue deferred tax liability. The fund's deferred tax liability (if any) is reflected each day in the fund's net asset value. As a result, the fund's total annual operating expenses may be significantly higher than those of funds that do not primarily invest in Master Limited Partnerships. Please see the fund prospectus for additional information.
- **Mutual Funds and ETFs that pursue complex or alternative investment strategies or returns** may employ various investment strategies and techniques for both hedging and more speculative purposes such as short selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. Alternative investment strategies are not suitable for all investors.

While mutual funds and ETFs may at times utilize non-traditional investment options and strategies, they have different characteristics than unregistered privately offered alternative investments. Because of regulatory limitations, mutual funds and ETFs that seek alternative-like investment exposure must utilize a more limited spectrum of investments. As a result, investment returns and portfolio characteristics of alternative mutual funds may vary from traditional hedge funds pursuing similar investment objectives. They are also more likely to have relatively higher correlation with traditional market returns than privately offered alternative investments. Moreover, traditional hedge funds have limited liquidity with long "lock-up periods allowing them to pursue investment strategies without having to factor in the need to meet client redemptions. On the other hand, mutual funds typically must meet daily client redemptions. This differing liquidity profile can have a material impact on the investment returns generated by a mutual fund pursuing an alternative investing strategy compared with a traditional hedge fund pursuing the same strategy.

Non-traditional investment options and strategies are often employed by a portfolio manager to further a fund's or

ETFs investment objective and to help offset market risks. However, these features may be complex, making it more difficult to understand the fund's or ETF's essential characteristics and risks, and how it will perform in different market environments and over various periods of time. They may also expose the fund or ETF to increased volatility and unanticipated risks particularly when used in complex combinations and/or accompanied by the use of borrowing or "leverage".

MSSB does not render advice on tax and tax accounting matters to clients. Statements relating to tax in this Brochure are not intended or written to be used, and cannot be used or relied on by any recipient, for any purpose, including the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws. You should consult your personal tax and/or legal advisor to learn about any potential tax or other implications that may result from acting on a particular recommendation.

Neither MSSB nor its affiliates will have any responsibility for your assets not in the account or for any act done or omitted on the part of any third party.

## Policies and Procedures Relating to Voting Client Securities

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

- retain the authority and responsibility to vote proxies for your account
- delegate discretion to vote proxies to a third party (other than MSSB) or
- authorize us to vote proxies for such securities and receive related materials (and we, in turn, may delegate this function to any Subadvisor for your account).

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

Neither MSSB nor any Subadvisor will provide advice or take action with respect to legal proceedings (including bankruptcies) relating to the securities in your account, except to the extent required by law.

**MSSB's Proxy Voting Policies and Procedures.** This section only applies if you authorize us to vote proxies on your behalf.

We have established a Proxy Voting Committee with members designated by MSSB management. The Proxy Voting Committee has the authority to amend MSSB's proxy voting policies and procedures. The Proxy Voting Committee meets annually, or as needed, to review generally these proxy voting policies and procedures, as well as to make decisions regarding the voting of client proxies. If you delegate proxy voting authority to MSSB, MSSB (and not your Financial Advisor) makes proxy voting decisions for your account.

To assist us in our proxy voting responsibilities, we have engaged ISS, a third party provider of corporate governance

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

If ISS cannot make a proxy vote recommendation, the Proxy Voting Committee independently determines how to vote proxies consistent with MSSB's policy to vote proxies solely in clients' best interests, for those accounts subject to Proxy Voting Committee processes.

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

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

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

Unless you have retained the authority and responsibility to vote the proxies or delegated discretion to vote proxies to a third party, if your account is managed by a Subadvisor, the Subadvisor will vote proxies on your behalf.

Neither MSSB nor any Subadvisor will provide advice or take action with respect to legal proceedings (including bankruptcies) relating to the securities in your account, except to the extent required by law.

You may obtain from your Financial Advisor, on request:

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

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

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

If your account is managed by the Applied Equity Advisors team but not implemented by PPG, the team receives various information about you, including your name, whether or not your account is taxable, state/country of residence and account restrictions. The team also receives information on your investment objectives, financial situation and investment history, risk tolerance and time horizon.

If your account is managed by the Applied Equity Advisors team and implemented by PPG, or if your account is managed by the Fundamental Equity Advisors, Opportunistic Equity or Portfolio Advisory Services teams, we give this information to PPG so that PPG can implement your account (as described in Item

4.A).

If your account is managed by a Subadvisor, we give this information to the Subadvisor in connection with the Subadvisor managing your account.

If you are a Model Recipient (to whom we provide Model Portfolios), we will give any relevant information we may collect about you to the GIS Portfolio Managers who provide the Model Portfolios to you.

Your Financial Advisor provides updated information to the PPG or the Subadvisor when needed to manage your account (e.g. changes in restrictions on the securities, or categories of securities, that your account can hold).

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

We do not restrict you from contacting and consulting with your GIS Portfolio Managers or Subadvisor. You are free to contact and consult with them 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 Citigroup Global Markets Inc. ("CGM") are predecessor broker-dealer firms of MSSB. "Citi" means Citigroup Inc., a former indirect part owner 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 consultant to review and comment on the implementation and effectiveness of the policies, procedures and training.

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

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

- On May 9, 2007, the SEC issued an Order ("May 2007 Order") settling an administrative action with MS&Co. In this matter, the SEC found that MS&Co. violated its duty of best execution under the Exchange Act. In particular, the SEC found that, during the period of October 24, 2001 through December 8, 2004, MS&Co.'s proprietary market-making system failed to provide best execution to certain retail OTC orders. In December 2004, MS&Co. removed the computer code in the proprietary market-making system that

caused the best execution violations. MS&Co. consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, to pay disgorgement of approximately \$5.9 million plus prejudgment interest on that amount, and to pay a civil penalty of \$1.5 million. MS&Co. also consented to retain an Independent Compliance Consultant to review its policies and procedures in connection with its market-making system's order handling procedures and its controls relating to changes to those procedures, and to develop a better plan of distribution.

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

future violations, and was required to pay a \$7.5 million penalty and to retain an independent consultant to review MS&Co.'s applicable policies and procedures. MS&Co. consented to the issuance of the October 2007 Order without admitting or denying the SEC's findings.

- On December 18, 2007, MS&Co. became the subject of an Order Instituting Administrative Cease-and-Desist Proceedings ("December 2007 Order") by the SEC. The December 2007 Order found that, from January 2002 until August 2003, MSDW (1) failed to reasonably supervise four Financial Advisors, with a view to preventing and detecting their mutual fund market-timing activities and (2) violated the Investment Company Act of 1940 by allowing multiple mutual fund trades that were placed or amended after the close of trading to be priced at that day's closing net asset value. The December 2007 Order also found that, from 2000 through 2003, MSDW violated the Exchange Act by not making and keeping records of customer orders placed after the market close and orders placed for certain hedge fund customers in variable annuity sub-accounts. Without admitting or denying the SEC's findings, MS&Co. agreed to a censure, to cease and desist from future violations of the applicable provisions, to pay a penalty of approximately \$11.9 million, to disgorge profits related to the trading activity (including prejudgment interest) of approximately \$5.1 million and to retain an independent distribution consultant.
- In May 2005, MS&Co. and MSDW discovered that, from about January 1997 until May 2005, their order entry systems did not check whether certain secondary market securities transactions complied with state registration requirements known as Blue Sky laws. This resulted in the improper sale of securities that were not registered in 46 state and territorial jurisdictions. MS&Co. and MSDW conducted an internal investigation, repaired system errors, self-reported the problem to all affected states and the New York Stock Exchange, identified transactions which were executed in violation of the Blue Sky laws, and offered rescission to affected customers. MS&Co. settled the state regulatory issues in a multi-state settlement with the 46 affected state and territorial jurisdictions. Under the settlement, MS&Co. consented to a cease and desist order with, and agreed to pay a total civil monetary penalty of \$8.5 million to be divided among, each of the 46 state and territorial jurisdictions. The first order was issued by Alabama on March 19, 2008, and orders are expected to be issued by subsequent states over the coming months.
- On August 13, 2008, MS&Co. agreed on the general terms of a settlement with the NYAG and the Office of the Illinois Secretary of State, Securities Department ("Illinois") (on behalf of a task force of the North American Securities Administrators Association ("NASAA")) with respect to the sale of auction rate securities ("ARS"). MS&Co. agreed, among other things, to repurchase at par approximately \$4.5 billion of illiquid ARS held by certain clients of MS&Co. which were purchased prior to February 13, 2008. Additionally, MS&Co. agreed to pay a total fine of \$35 million. Final agreements were entered into with the NYAG on June 2, 2009 and with Illinois on September 17, 2009. The

Illinois agreement serves as the template for agreements with other NASAA jurisdictions.

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

returns and failing to disclose material information. FINRA also held that MS&Co. failed to ensure that the securities and accounts recommended for the retirees were properly reviewed for appropriate risk disclosure, suitability and other concerns. MS&Co. consented, without admitting or denying the findings, to a censure, a fine of \$3 million, and restitution of approximately \$2.4 million plus interest to 90 former clients of the Financial Advisors.

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

## **Other Financial Industry Activities and Affiliations**

Morgan Stanley ("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. and its affiliates, the following restrictions apply when executing client trades:

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

These restrictions may adversely impact client account performance.

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

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

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

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

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

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

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

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

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

#### **Code of Ethics**

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

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

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

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

GIS employees generally cannot trade securities they own on the same day as clients trade that security in any strategy managed by the corresponding GIS Portfolio Manager team. However, if the GIS employee’s account is implemented by PPG, this prohibition does not apply to trades resulting from portfolio changes applying across the board to clients invested in a strategy, trades to bring the GIS employee’s account in line with the strategy, or tax harvesting trades. GIS employees may thereby acquire, and compete for, positions or interests in the same securities as their clients which may affect the security’s price, which constitutes a conflict of interest because client accounts may at times be indirectly negatively impacted. We address this conflict by restricting the circumstances in which GIS employees’ accounts may trade alongside client accounts (including our requirement that such trades only be made in accounts implemented by PPG).

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

See Item 6.B above.

### **Reviewing Accounts**

In the strategies that PPG implements (see Item 4.A above), PPG portfolio managers and associates check accounts daily to ensure, e.g., that accounts are invested in accordance with the instructions PPG has received from the GIS Portfolio Managers.

Some accounts managed by the Applied Equity Advisors team are implemented by PPG, so the review process described above applies. For other Applied Equity Advisor accounts, portfolio managers and/or other team members review performance of each strategy daily and performance of every account in a strategy weekly. They perform attribution analysis on individual accounts as needed.

For strategies managed by Subadvisors, portfolio managers employed by the Subadvisor regularly review accounts to ensure that they are properly invested in accordance with clients' instructions.

We will ask you at least annually if your investment objectives have changed. If your objectives change, you should discuss with your Financial Advisor whether your selected GIS Portfolio Managers are still suitable for your needs.

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

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

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

### **Financial Information**

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

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

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



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

### **Sweep Vehicles in Retirement Accounts and CESAs**

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

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

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

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

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

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

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

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

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

### **Interest Earned on Float**

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

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

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

Generally, with respect to such assets awaiting investment:

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

### **MSSB as an ERISA fiduciary**

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

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

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

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

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

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

The fund expense information below reflects the most recent information available to us as of February 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%	0.11%	0.66%	0.08%
Active Assets Institutional Government Securities Trust	0.10%	None	0.08%	0.18%	0.174%
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	0.36%	0.10%	0.10%	0.56%	0.10%