

# **Form ADV Firm Brochure**

## **Morgan Stanley Smith Barney LLC**

Consulting and Evaluation Services (directed brokerage) Program  
Investment Management Services (directed brokerage) Program

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**This 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.

**Account Opening.** MSSB has discontinued use of the client agreements for the Consulting and Evaluation Services (“CES”) and Investment Management Services (“IMS”) programs for opening new accounts. You must enter into the MSSB Single Advisory Contract to open an account in the CES and IMS programs.

Effective April 20, 2015, MSSB will implement a new form of Single Advisory Contract which will be used to open new 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 covers additional Consulting Group programs (Global Investment Solutions and Alternative Investments Advisory).

The new form of Single Advisory Contract that you receive will amend any Single Advisory Contract that you signed, in accordance with its terms. (Item 4.A)

**Selection and Review of Managers.** MSSB’s Global Investment Manager Analysis Group (“GIMA”), was formerly known as Consulting Group Investment Advisor Research Group or “CGIAR”. A termination of a manager or a strategy for reasons other than a GIMA downgrade to “Not Approved” will be referred to in this ADV Brochure as a “Drop in Coverage”. For a period of time (generally, about two years) after a decision to institute a Drop in Coverage, MSSB will permit clients who are using that manager or strategy to continue to do so, and to add assets to that manager or strategy. During this period, GIMA will continue to evaluate the impacted manager or strategy. If GIMA downgrades the manager or strategy to “Not Approved”, MSSB will terminate the manager or strategy at that time. (Item 8.A)

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## Item 4: Advisory Business

### A. Description of MSSB, Principal Owners

Morgan Stanley Smith Barney LLC (“MSSB”, “we”, “us” or “our”) 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 United States with branch offices in all 50 states and the District of Columbia.

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

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

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 5.C (Additional Fees and Expenses – Cash Sweeps -- Bank Deposit Program) below, for more information.

### B. Description of Advisory Services

This Brochure describes two investment advisory programs: the Consulting and Evaluation Services - Directed Brokerage program and the Investment Management Services - Directed Brokerage program. Any such services will be specified in the investment advisory agreement between MSSB and you (see “Account Opening” in this Item 4.B below) and are subject to change without notice to you.

A manager participating in these programs may offer one or more investment strategies (“strategy”) for selection by you. References herein to “manager” will include references to any strategy offered by that manager. Generally, investment strategies that managers may use in the programs described in this Brochure will include as part of their portfolio common stock or fixed income securities but may also include American Depositary Receipts, mutual funds, ETFs, master limited

partnerships, foreign securities and other security options. Please review the ADV Brochure for the manager you select for additional details on that manager’s portfolio.

From time to time, managers may request that we provide them with information about you and your account (including your financial situation and investment objectives) and we may provide your managers with a data download of all transactions they effected on your behalf. Your selection of a manager is deemed to be your consent to our provision of that information as well as data and copies of your account statements to that manager. You may revoke that consent at any time by terminating the account.

### Consulting and Evaluations Services - Directed Brokerage

The Consulting and Evaluation Services (“CES”) program offers you the portfolio management services of unaffiliated managers, selected and approved by MSSB, in a program that provides consulting, custody, brokerage and performance reporting.

To participate in the CES program, you sign separate agreements with us and each of your selected managers, and pay separate fees to us and each manager. See “Account Opening” in this Item 4.B below for additional information. You delegate investment discretion directly to the managers, while we provide consulting, custody, brokerage and administrative services. Certain clients may also elect, subject to our approval, not to receive all our services available in CES. You may open multiple accounts, each managed by one manager according to a specific investment style.

After receiving appropriate information from you, we identify several CES managers suitable for you. You may also consider other CES managers (subject to minimum investment requirements and other information provided by you). The manager you select has the sole authority to manage your account and make investment decisions in light of, among other things, your investment objectives and requirements (including any restrictions). Sometimes CES managers delegate some of their duties to a sub-adviser.

**The decision to participate in CES and the selection of the manager(s) is your decision and responsibility.**

***Changes to Investment Managers.*** A manager may offer one or more investment strategies in the CES program. Changes to a previously selected manager or strategy of a particular manager may be made in the following ways:

- i. MSSB may terminate an investment manager or a particular strategy of the manager for any reason.
- ii. Managers may terminate their participation in the CES program, their investment strategy or their services to one or more clients, for any reason, generally on a defined period of notice to MSSB.

If your manager or a strategy managed by your manager is terminated from the CES program (either by us or by the

manager), we will notify you and ask you to select a new manager or strategy. Our notice may also identify an appropriate replacement manager or strategy selected by us. **If you do not select a new manager or strategy within the time frame prescribed in our notice and even if the notice recommended a new manager or strategy, your assets will be moved to a brokerage account at MSSB.** If your account becomes a brokerage account, you will no longer have an investment manager managing your account, and you will be responsible for making all investment decisions for your account.

You will need to select a new replacement manager to continue receiving services offered under the CES program.

- iii. You may change or terminate a manager or a strategy managed by the manager for any reason by complying with MSSB's procedures for manager changes and termination detailed below.
- iv. Your Financial Advisor may recommend a change of managers or strategy for any reason including without limitation, your investment objectives or market conditions change or if another manager would be more appropriate for you.
- v. In the CES program, the manager you have selected is subject to ongoing review by GIMA. If after review by GIMA, the manager or strategy you had previously selected is still approved for the Consulting and Evaluation Services program but has undergone an asset class change, MSSB may notify you, of the asset class change. Such notification may include an appropriate manager that is in the Asset Class that you have selected.

For any changes to or terminations of managers, with your verbal or written consent, MSSB may assign you to a different manager.

MSSB may refuse, without penalty, to honor instructions with respect to a client's account from a terminated manager, notwithstanding any failure by the client to execute a written revocation. Engaging a replacement manager may result in liquidation of securities from the account.

### **Investment Management Services - Directed Brokerage**

Certain clients may wish to obtain MSSB's services in ways similar to the CES program, but use a manager or investment strategy not approved by MSSB for the CES program. For example, some such clients have a pre-existing relationship with that manager, and their investment with that manager is one part of their overall advisory relationship with MSSB.

The Investment Management Services ("IMS") program was created to accommodate clients who want to maintain a relationship with an investment manager of their choice that is not covered by MSSB's Global Investment Manager Analysis Group, and, thus not included in the due diligence process that GIMA employs for investment managers and funds of certain other investment advisory programs offered by MSSB. For additional information on GIMA, see "Methods of Analysis,

Investment Strategies and Risk of Loss" in Item 8 below.

Although you are not offered the manager identification, review and monitoring services described below, IMS offers execution, custody and basic performance reporting for your account. To participate in the IMS program, you sign separate agreements with MSSB and your selected manager, pay separate fees to MSSB and the manager and you delegate investment discretion directly to the manager. See "Account Opening" in this Item 4.B below for additional details.

**The decision to participate in IMS and the review and selection of the manager(s) is your decision and responsibility whether or not your relationship with the investment manager predates your relationship with MSSB and/or your current Financial Advisor. MSSB will not assist in any way with the recommending or soliciting of the managers selected in the IMS program.**

**In addition, you, and not MSSB, will be responsible for the initial and ongoing evaluation and monitoring of the managers selected by you for the IMS program.**

### **Account Opening**

To enroll in the CES and IMS programs, you (or in certain circumstances, your Financial Advisor acting upon your instructions) must complete an investment questionnaire. You must also enter into the MSSB Single Advisory Contract (the "Single Advisory Contract") to open accounts in CES and IMS. MSSB has discontinued use of the CES and IMS client agreements for opening new accounts (but some existing CES and IMS accounts may have been opened using the CES and IMS client agreements). The CES and IMS client agreements and the Single Advisory Contract shall be collectively referred to as the "Account Agreement".

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 programs described in this Brochure.

Effective April 20, 2015, MSSB will implement a new form of Single Advisory Contract which will be used to open new accounts in the CES and IMS programs. 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 covers additional Consulting Group programs (Global Investment Solutions and Alternative Investments Advisory).

The new form of Single Advisory Contract that you receive will amend any Single Advisory Contract that you signed, in accordance with its terms.

You agree and acknowledge that any provisions of your Account Agreement, including the fee that you negotiated with your Financial Adviser, may be changed by MS upon notice to you.

### **Consulting Group Trust Services**

In the programs described in this Brochure 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 Adviser 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" in Item 14 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 hold your assets in custody at MSSB through CG Trust Services. Accounts outside of CG Trust Services may be subject to different custody arrangements.

MSSB has made arrangements to have a number of external trust companies participate in CG Trust Services, as described above. While these arrangements are designed to enhance the administrative and operational experience of clients who appoint such an external trust company and MSSB to service the same assets, these arrangements could pose a conflict of interest for MSSB and its representatives by creating an incentive for them to introduce their clients to those external trust companies 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.B below). For additional information and to determine eligibility for CG Trust Services, please contact your Financial Advisor.

### **Tax and Legal Considerations**

For the programs described in this Brochure, certain managers may be able to accommodate tax harvesting for a client and clients should contact their manager directly for details.

Clients may elect for their manager to sell securities harvesting gains and losses for the account. Such tax harvesting may entail decisions which deviate from a manager's overall investment strategy. As a result: (i) the account may not receive the benefits, including gains and avoided losses, of certain recommended purchases and sales of securities; and (ii) the account's composition and performance may vary significantly from that of client accounts for which similar tax harvesting services have not been selected.

In the programs described in this Brochure, replacing a manager may result in sales of securities and subject you to additional income tax obligations. Consult your independent tax or legal advisor with respect to the services described in this Brochure, as MSSB and its affiliates do not provide tax or legal advice.

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

Investors in MLP portfolios will receive a Schedule K-1 for each MLP in the portfolio, so they will likely receive numerous Schedule K-1s. Investors will need to file each Schedule K-1 with their federal tax return. Also, investors in MLP portfolios may be required to file state income tax returns in states where

the MLPs in the portfolio operate. Since some Schedule K-1s may not be provided until after the due date for the federal or state tax return, investors in MLP portfolios may need to obtain an extension for filing their federal or state tax returns. Please discuss with your tax advisor how an investment in MLPs will affect your tax return.

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

**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 individual retirement accounts, 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 Account investors (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.

***Principal Trading and Related Fees.*** There may be instances when, after a determination by the Manager that it is in the client’s best interest and subject to the requirements of applicable law, we shall execute principal transactions on the client’s behalf. If we execute principal transactions on the client’s behalf, these may include a mark-up over our cost which is in addition to the fee. See “Additional Fees and Expenses” in Item 5.C below.

## **C. Customized Advisory Services and Client Investment Restrictions**

We tailor our advisory services to your individual needs in the CES program by identifying investment managers that we consider suitable for you from among those participating in the program based on the information from you and the managers. You select the investment manager to manage your assets.

We do not tailor our investment advisory services to your individual needs in the IMS program, as you select the investment manager without any recommendation by MSSB or your Financial Advisor.

Please contact the manager to determine what types of investment restrictions you may place on your account.



Please note that 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.

## **D. Portfolio Management Services to Wrap Fee Programs**

This item does not apply to the advisory programs described in this Brochure.

## **E. Assets Under Management (“AUM”)**

MSSB managed client assets of \$783,409,682,555 as of December 31, 2014. Of this amount, MSSB managed \$299,334,359,159 on a discretionary basis and \$484,075,323,396 on a non-discretionary basis. These amounts represent the client assets in all of our investment advisory programs. We calculated them using a different methodology than the “assets under management” we report in our ADV Part 1 filed with the SEC.

# **Item 5: Fees and Compensation**

## **A. Compensation for Advisory Services**

- You pay MSSB and the manager separately for the services each provides in the CES or IMS program. You may pay us for our services by: directed brokerage (i.e. paying commission on a transaction-by-transaction basis), or
- an asset-based fee at a maximum annual fee rate of 2.50% for CES and a maximum annual fee rate of 2% for IMS. (Our separate Wrap Fee Program Brochure for the CES and IMS programs, available from your Financial Advisor, describes the asset-based fee option.)

Alternatively, in some cases, institutional clients may negotiate an annual fixed dollar amount, paid quarterly. Please contact your Financial Advisor for additional information.

It is possible that either the commissions you pay to MSSB through the directed brokerage billing arrangement or compensation paid to MSSB through the annual fixed dollar amount billing arrangement are greater than the maximum asset-based advisory fee (2.50% for CES and 2% for IMS) charged by MSSB to clients who have selected that asset-based billing arrangement. We would recommend you contact your Financial Advisor to discuss possible changes to the billing arrangement on your account.

Each manager charges you a separate fee for its services. We do not pay the manager any part of the fee or other compensation you pay to us.

In the directed brokerage based advisory programs, we receive the brokerage commissions on transactions executed by MSSB. Clients may choose to pay brokerage transactions on a “cents per share” or as a “percentage discount” off our standard brokerage commission schedule.

**Fees are Negotiable.** The brokerage commission schedule depends on many factors such as the stock exchange where the security is executed and the security’s liquidity. The brokerage commissions are negotiable. The brokerage commissions you pay for your account may be (i) higher or lower than the commissions and/or 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 (ii) higher or lower than the cost of similar services offered through other financial firms. Each manager and strategy you hold in the programs described in this Brochure is held in a separate account, even if held in the same program. For more information, please ask your Financial Advisor.

**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 Account 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 the Account Agreement 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. Payment of Fees**

In the advisory programs listed in this Brochure, you pay for our advisory fee in connection with executing securities transactions. Therefore, your payments accrue each time your investment manager places a trade for execution. In addition to the MSSB fee you pay with securities transactions, you can pay your investment management fee to your manager from your advisory account or your manager can bill you separately.

**Changes to Fees.** You agree and acknowledge that MSSB reserves the right to change the brokerage commission schedule that you have agreed to with your Financial Advisor upon notice to you.

**Other.** A portion of the MSSB Fee will be paid to your Financial Advisor. See “Other Compensation to Financial Advisors” in Item 5.E below for more information.

## **C. Additional Fees and Expenses**

If you open an account in one of the programs described in this Brochure, you pay commissions on the transactions in your account for investment advisory services (for CES only), custody of securities, and trade execution with or through MSSB. For more information on brokerage commissions, see Item 5.A, 5.B and Item 12.A. The program fees do not cover:

- the costs of investment management fees and other expenses charged by the investment manager that you selected;
- “mark-ups,” “mark-downs” and dealer spreads (A) that MSSB or its affiliates may receive when acting as principal in certain transactions where permitted by law or (B) that

other broker-dealers may receive when acting as principal in certain transactions effected through MSSB and/or its affiliates acting as agent, which is typically the case for dealer market transactions (e.g., fixed income and over-the-counter equity);

- brokerage commissions or other charges resulting from transactions not effected through MSSB or its affiliates;
- MSSB account establishment or maintenance fees for its 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;
- any fee which a trust company affiliated with MSSB charges for its services (if applicable) as custodian and trustee for the assets in the program described in this Brochure, pursuant to a separate agreement between you and the trust company;
- certain other costs or charges that may be imposed by third parties (including, among other things, odd-lot differentials, transfer taxes, foreign custody fees, exchange fees, supplemental transaction fees, regulatory fees and other fees or taxes that may be imposed pursuant to law) or
- interest charged to the account should the account have a trade-related debit balance.

## Funds in Advisory Programs

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

You do not pay any sales charges for purchases of mutual funds in the program described in this Brochure. However, some mutual funds may charge, and not waive, a redemption fee on certain transaction activity in accordance with their prospectuses. Please refer to the applicable prospectus for more information.

MSSB shall not be responsible for any misstatement or omission or for any loss attributable to such misstatement or omission contained in any Fund prospectus, fact sheet or any other disclosure document provided to us for distribution to clients.

**Expense Payments, Data Analytics and Administrative Services Fees.** MSSB receives expense payments and fees for data

analytics, recordkeeping and related services, which are more fully described below. Administrative fees may be viewed in part as a form of revenue-sharing if and to the extent they exceed what the mutual fund would otherwise have paid for these services.

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

Certain fund families (referred to as “Global Partners” or “Emerging Partners”) dedicate significant financial and staffing resources to these efforts and receive supplemental sales data analytics as well as additional opportunities to sponsor firm events and promote their funds to our Financial Advisors and clients. Global Partners commit \$550,000 per year for training and sales meeting expenses and pay a fee of \$200,000 per year for data analytics. Emerging Partners commit \$250,000 per year for training and sales expenses and pay a fee of \$100,000 per year for data analytics. These facts present a conflict of interest for MSSB and our Financial Advisors to the extent they lead us to focus on funds from those fund families, including our Global and Emerging Partners, that commit significant financial and staffing resources to promotional and educational activities instead of on funds from fund families that do not purchase sales data analytics or do not commit similar resources to these activities. In order to mitigate this conflict, Financial Advisors and their Branch Office Managers do not receive additional compensation for recommending fund families sponsored by our Global or Emerging Partners or any other fund families that provide significant sales and training support. Global and Emerging Partners may present a certain number of funds or other products to MSSB’s Global Investment Manager Analysis Group, known as “GIMA” (formerly known as CG Investment Advisor Research group or “IAR”) subject to a shorter timeline for GIMA to begin its review of such products if there is a backlog at the time the fund or product is being considered. However, products and funds offered by Global and Emerging Partners are subjected to the same GIMA due diligence process and standards as all other investment products and are not given preference in terms of approval by GIMA for offering in MSSB programs.

MSSB selects the Global and Emerging Partners fund families based on a number of quantitative and qualitative criteria. Our Global Partners are denoted by an asterisk on the Revenue-Sharing Fund Families list available by going to our website, <http://www2.morganstanley.com/wealth/investmentsolutions/mu>

[tualfunds.asp](#) and clicking on “Revenue Sharing Arrangements” at the bottom of the page.

Fund family representatives are allowed to occasionally give nominal gifts to Financial Advisors, and to occasionally entertain Financial Advisors (subject to an aggregate entertainment limit of \$1,000 per employee per fund family per year). MSSB’s non-cash compensation policies set conditions for each of these types of payments and do not permit any gifts or entertainment conditioned on achieving any sales target.

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

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

Notwithstanding the foregoing, MSSB does not receive such payments in relation to those clients that are Retirement Accounts.

For more information, please refer to the document “Mutual Fund Share Classes and Compensation”, Information about the firm’s revenue sharing practices in traditional brokerage accounts is available on our website at:

[http://www2.morganstanley.com/wealth/investmentsolutions/pdf/s/MF\\_share\\_classes.pdf](http://www2.morganstanley.com/wealth/investmentsolutions/pdf/s/MF_share_classes.pdf) and also available from your Financial Advisor on request.

Certain Funds are sponsored or managed by, or receive other services from, MSSB and its affiliates. MSSB or the affiliated sponsor or manager (or other service provider) receives additional investment management fees and other fees, including administrative service fees, from these Funds. Therefore, MSSB has a conflict to recommend MSSB affiliated Funds.

**Share Classes.** Mutual fund companies typically offer different ways to buy mutual fund shares. Some mutual funds only offer one share class for a particular fund while some funds offer many types of shares classes. In addition to the more broadly known retail share classes (A, B and C shares), fund companies have developed additional types of specialized share classes designed for specific advisory programs. Open-end mutual funds that may be available in the programs described in this Brochure are referred to as “Mutual Funds.” If available, clients’ shares are converted into the share class required by the Mutual Fund for the applicable type of account. Depending on the circumstances, clients’ shares are converted into a share class

that has a lower or a higher expense ratio. Advisory share classes usually have a lower expense ratio than the share classes that MSSB previously offered in the program. However, we may continue to offer non-advisory share classes if, for example, there is no equivalent advisory share class available or we believe that the non-advisory share class is likely to be the most cost effective share class. Once we make an advisory share class available for a particular Mutual Fund, clients can only buy the advisory class shares (not the non-advisory class shares) of that Mutual Fund in the program.

If available, we (without notice to you) may convert any Mutual Fund in your account to a share class of the same Mutual Fund which is a load-waived or no-load share class such as an Institutional share or Financial Intermediary Share, or to a share class that is available only to investment advisory clients (collectively, an “Investment Advisory Share”), to the extent available.

The manager you invest in may purchase certain mutual funds on your behalf. The funds may include:

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

The Managed Account Fund shares will be redeemed, and other mutual fund shares held in your account may be redeemed, on a manager change or account termination, or on a transfer of such mutual fund shares out of your managed account. For a taxable account, there will be tax consequences associated with the redemption.

On termination of your account for any reason, or the transfer of Mutual Fund shares out of your account into another account including a MSSB retail brokerage account, if, at the time of termination or transfer, your account includes Investment Advisory Shares or Managed Account Funds, we may convert these funds to a share class that is available in non-advisory accounts (even though the expense ratio for that share class may be higher than the expense ratio for the share class of the fund previously held in your account), or we may redeem these Mutual Fund shares. The non-advisory Mutual Fund share class generally has higher operating expenses than the corresponding Investment Advisory Share, which may negatively impact investment performance.

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

The rates and terms and conditions of these mutual fund arrangements can be changed at any time. For more information, please refer to the document “Mutual Fund Share Classes and Compensation”, which is available at:

[http://www2.morganstanley.com/wealth/investmentsolutions/pdf/s/MF\\_share\\_classes.pdf](http://www2.morganstanley.com/wealth/investmentsolutions/pdf/s/MF_share_classes.pdf) or from your Financial Advisor upon request.

## Cash Sweeps

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

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

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

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 without limitation, certificates of deposit) that you hold at the Sweep Banks in the same capacity. Bank deposits held through the BDP are not covered by the Securities Investor Protection Corporation (“SIPC”) or excess coverage.

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

Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which will be provided to you upon your first investment in the Bank Deposit Program. You may also obtain the Bank Deposit Program Disclosure Statement as well as current interest rates applicable to your account, by contacting your Financial Advisor or through MSSB’s 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.

## **D. Prepayment of Fees**

For clients who elect the directed brokerage payment option, as described in this Brochure, we do not charge you commissions in advance. For the asset-based fee payment option, you pay your MSSB fees to us quarterly in advance.

You may terminate participation in the programs described in this Brochure at any time by giving oral or written notice to MSSB. If you terminate your advisory agreement with the investment manager or with us during a billing quarter, we will refund to you, on a pro rata basis, any asset-based fees you prepaid to us for our services.

## **E. Other Compensation to Financial Advisors**

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 you invest in, the asset class within a program that you select (e.g. equity vs. fixed income), and the rate and amount of your fee. The amount we allocate to your Financial Advisor in connection with accounts opened in programs described in this Brochure 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. Your Financial Advisor may therefore have a financial incentive to recommend one of the programs in this Brochure instead of other MSSB programs or services.

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

The sale of some financial products will benefit your Financial Advisor more than others. In the CES program, your Financial Advisor has a conflict of interest in recommending a manager with a high portfolio turnover ratio (trades frequently). We address this conflict by disclosing it to you.

You may be able to invest with managers directly or through brokers or agents not affiliated with MSSB, instead of investing through the CES or IMS programs.

In the programs described in this Brochure, we do not charge any advisory fee in addition to commissions. Less than 50% of our revenue generated from our advisory business comes from commissions and compensation such as distribution fees for the sale of investment products we recommend to clients.

## **Item 6: Performance Based Fees and Side by Side Management**

This item does not apply to the programs described in this Brochure.

## **Item 7: Types of Clients**

Our 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.

In the CES and IMS programs, minimum account sizes are set by each manager and generally range from \$250,000 to \$5 million or higher.

## Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

### A. Method of Analysis and Investment Strategies

MSSB does not provide portfolio management services in the programs listed in this Brochure. Your investment manager performs the discretionary management of your account. Financial Advisors may recommend a particular investment manager focusing on a particular strategy to clients in the CES program. However, Financial Advisors will not recommend an investment manager in the IMS program. Investing in securities involves risk of loss that you should be prepared to bear.

In the CES program, we offer a wide range of investment managers that we have selected and approved. Item 4.B above describes the basis on which we recommend particular managers to particular clients. This Item 8.A describes more generally how we select managers for and terminate managers from the CES program. If managers have more than one strategy, we may include only some of those strategies in the programs described in this Brochure, may carry different strategies in different programs, and assign different statuses to different strategies.

GIMA evaluates managers and strategies offered by managers. GIMA may delegate some or all of its functions to an affiliate or third party. Managers may only participate in the CES program if they are on GIMA's Focus List or Approved List discussed below. You may obtain these lists from your Financial Advisor. Only some of the managers that are approved by GIMA and are on the Focus List and Approved List may be available in CES. In addition, investment products such as the mutual funds and ETFs approved by GIMA are not offered in the CES program.

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

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

We automatically terminate managers in the CES program if GIMA downgrades them to "Not Approved." We may terminate managers from the program for other reasons (e.g., the manager has a low level of assets under management in the program, the manager has limited capacity for further investment, or the manager is not complying with our policies and procedures).

**Focus List.** To be considered for the Focus List, a manager provides GIMA with relevant documentation on the strategy being evaluated, which may include a Request for Information (RFI), sample portfolios, asset allocation histories, its Form ADV (the form that investment managers use to register with the SEC), past performance information and marketing literature. Additional factors for consideration may include personnel

depth, turnover and experience; investment process; business and organizational characteristics; and investment performance. GIMA personnel may also interview the manager and its key personnel, and examine its operations. Following this review process, managers are placed on the Focus List if they meet the required standards for Focus List status.

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

**Approved List.** The process for including, considering managers on the Approved List is less comprehensive. Managers provide GIMA with relevant documentation on the strategy being evaluated, which may include a Request for Information (RFI), sample portfolios, asset allocation histories, its Form ADV (the form that investment managers use to register with the SEC), past performance information and marketing literature. GIMA personnel may also interview the manager or Fund and its key personnel, typically via conference call. Additional factors for consideration may include personnel depth, turnover and experience; investment process; business and organization characteristics; and investment performance. In general, GIMA may use an algorithm – a rules-based scoring mechanism – that reviews various qualitative and quantitative factors and ranks each manager in a third party database. (Not all managers reviewed for the Approved List or Focus List are subject to this algorithm.) GIMA analysts analyze the information contained in the algorithm to gauge the completeness and consistency of the data which drive the rankings, and then send the manager additional information requests. GIMA then determines whether the manager meets the standards for Approved List status.

GIMA periodically evaluates managers on the Approved List and Focus List to determine whether they continue to meet the approved standards.

**Changes in Status from Focus List to Approved List.** GIMA may determine that a manager no longer meets the criteria for the Focus List but meets the criteria for the Approved List. If so, MSSB generally notifies program clients regarding such status changes on a quarterly basis in their client statements.

**Changes in Status to Not Approved.** GIMA may determine that a manager no longer meets the criteria for either the Focus List or Approved List and therefore the manager will no longer be recommended in MSSB investment advisory programs. We notify affected clients of these downgrades. You cannot retain downgraded managers in your CES account and must select a replacement from the Approved List or Focus List, and that is available in the program, if you wish to retain the program's benefits with respect to the affected assets.

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

In the CES program, MSSB generally specifies a replacement manager for a terminated manager (as discussed in Item 4.B above). In selecting the replacement manager, GIMA generally looks for a manager in the same asset class, and with similar attributes and holdings to the terminated manager.

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

***Termination of Manager or Strategy for Reasons Other than a GIMA Downgrade to “Not Approved”.*** As indicated above in this Item 6.A, we may terminate managers from the CES program due to a GIMA downgrade to “Not Approved”, or for various other reasons. A termination for reasons other than a GIMA downgrade to “Not Approved” will be referred to in this ADV Brochure as a “Drop in Coverage”.

Once we have decided to institute a Drop in Coverage for a manager, we will generally not permit clients who are not using that manager to select that manager for a CES account. However, for a period of time (generally, about two years), we will permit clients who are using that manager to continue to do so, and to add assets to that manager. This is to allow impacted clients time and flexibility to work with their Financial Advisor to select a replacement manager.

During this period, GIMA will continue to evaluate the manager. If GIMA downgrades the manager to “Not Approved”, we will terminate the manager at that time (rather than allowing current clients to utilize it for the remainder of the two year period). During this period after we have decided to institute a Drop in Coverage, GIMA may rely more heavily on an algorithm or other quantitative factors in its evaluation, and may discontinue preparation of periodic reports or other written materials.

***Watch Policy.*** GIMA has a “Watch” policy for managers on the Focus List and Approved List. Watch status indicates that, in reviewing a manager, GIMA has identified specific areas of the manager’s business that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the manager becoming “Not Approved.” Putting a manager on Watch does not signify an actual change in GIMA opinion nor is it a guarantee that GIMA will downgrade the manager. The duration of a Watch status depends on how long GIMA needs to evaluate the manager and for the manager to address any areas of concern. For additional information, ask your Financial Advisor for a copy of GIMA’s Watch Policy.

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

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

Please review your investment manager’s ADV Part 2 for a discussion on the method of analysis and investment strategy. For the CES and IMS programs, please contact your manager to review any manager ADVs.

## **B. Material, Significant, or Unusual Risks Relating to Investment Strategies**

All trading in your account is at your risk. 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 and the managers do not guarantee performance, and a manager’s past performance with respect to other accounts does not predict your account’s future performance.

In addition, certain investment strategies that managers may use in the programs described in this Brochure have specific risks, including those associated with investments in common stock, fixed income securities, American Depositary Receipts, mutual funds, ETFs, foreign securities and the investments below. You should consult with your Financial Advisor regarding the specific risks associated with the investments in your account. Also, please review any manager’s ADV Brochure for a discussion of the material risks associated with any Strategy you may have selected. For the CES and IMS programs, please contact your manager to review any manager ADVs.

MSSB, its affiliates and any managers will not have any responsibility for (i) your assets not in the account, or (ii) for any act done or omitted on the part of any third party.

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

***Risks Relating to Money Market Funds.*** An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, there is no assurance that will occur, and it is possible to lose money if



the fund value per share falls. Moreover, in some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. If this happens, the fund's holdings are liquidated and distributed to the fund's shareholders. This liquidation process could take up to one month or more. During that time, these funds would not be available to you to support purchases, withdrawals and, if applicable, check writing or ATM debits from your account.

***Risks Relating to Master Limited Partnerships.*** Master Limited Partnerships ("MLPs") are limited partnerships or limited liability companies whose interests (limited partnership or limited liability company units) are generally traded on securities exchanges like shares of common stock. Investments in MLPs entail 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 these sectors (including commodity pricing risk, supply and demand risk, depletion risk and exploration risk). Depending on the ownership vehicle, MLP interests are subject to varying tax treatment. Please see "Tax and Legal Considerations" in Item 4.B below and any mutual fund or ETF prospectus, for more information. You may obtain any mutual fund or ETF prospectus by asking your Financial Advisor.

***Risks Relating to Investment in a Concentrated Number of Securities or to Investment in Only One Industry Sector (or in Only a Few Sectors).*** 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. 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 MLP strategies, as many MLPs are issued by companies engaged in the energy and natural resources business.

***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.

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

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".

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

For other risks relating to the particular strategy you hold in your account, see your manager's Brochure. For the CES and IMS programs, please contact your manager to review any manager Brochures.

## **C. Risks Associated with Particular Types of Securities**

Please review your investment manager's ADV Part 2 for a discussion of the material risks associated particular securities in your account. For the CES and IMS programs, please contact your manager to review any manager ADVs.

## **Item 9: 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 partial 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.

## Item 10: 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.

## A. Broker-Dealer Registration Status

As well as being a registered investment advisor, MSSB is registered as a broker-dealer.

## B. Commodity Pool Operator, or Commodity Trading Adviser Registration Status

MSSB has related persons that are commodity pool operators (Ceres Managed Futures LLC, Morgan Stanley AIP GP LP, Morgan Stanley Investment Management Inc., Morgan Stanley Cayman Ltd., Morgan Stanley AIP Cayman GP Ltd., Morgan Stanley Alternative Investment Partners LP, Morgan Stanley Hedge Premier GP, and Morgan Stanley GWM Feeder Strategies LLC) and commodity trading advisers (Ceres Managed Futures LLC, Morgan Stanley AIP GP LP, Morgan Stanley Investment Management Inc.). For a full listing of affiliated investment advisers, please see the ADV Part I.

## C. Material Relationships or Arrangements with Industry Participants

**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.

**Different Advice.** MSSB and its affiliates may give different advice, take different action, receive more or less compensation, or hold or deal in different securities for any other party, client or account (including their own accounts or those of their affiliates) from the advice given, actions taken, compensation received or securities held or dealt for your account.

**Trading or Issuing Securities in, or Linked to Securities in, Client Accounts.** MSSB and its affiliates may provide bids and offers, and may act as a principal market maker, in respect of the same securities held in client accounts. MSSB, its affiliates and employees, the managers in its programs and their affiliates and employees, may hold a position (long or short) in the same securities held in client accounts. MSSB and its affiliates are regular issuers of traded financial instruments linked to securities that may be purchased in client accounts. From time to time, the trading of MSSB, a manager or their affiliates – both for their proprietary accounts and for client accounts – may be detrimental to securities held by a client and thus create a conflict of interest. We address this conflict by disclosing it to you.

**Trade Allocations.** MSSB may aggregate the securities to be sold or purchased for more than one client to obtain favorable execution to the extent permitted by law. MSSB 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, the size of the accounts, and the amount of available cash or the size of an existing position in an account). The price to each client is the average price for the aggregate order.

**Services Provided to Other Clients.** MSSB and its affiliates and investment managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that MSSB may recommend for purchase or sale by clients or are otherwise held in client accounts, and investment management firms in the programs described in this Brochure. MSSB and its affiliates and investment managers and their affiliates receive compensation and fees in connection with these services. MSSB believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account. Accordingly, it is likely that securities in an account will include some of the securities of companies for which MS&Co. MSSB and investment managers and their affiliates or an affiliate performs investment banking or other services.

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

Stanley securities, and in certain related securities. These restrictions may adversely impact your account performance.

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

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

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

**Certain Trading Systems.** MSSB may effect trades 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 on which MSSB or the 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.) own 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. receive from one or more Trading System may exceed the amount that is

charged. Under these limited circumstances, such payments would constitute payment for order flow.

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

**Transaction-Related Agreements with MS&Co. and Affiliates.** In connection with creating MSSB, certain agreements were entered into between or involving some or all of MSSB, MS&Co. and their affiliates. Some of these agreements, including the following, remain in effect even though MSSB is now a wholly owned subsidiary of Morgan Stanley Parent:

- **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 or for its investment advisory 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. Newly issued shares of securities purchased for a client's account normally provide for a fee, called a "reallowance fee," to be paid by the issuing corporation to the underwriters of the securities which will be deemed additional compensation to us, if received by us.

**MSSB Affiliate as Investment Advisor or Service Provider.** Affiliates of MSSB may serve as the investment advisor or other service provider for certain funds or strategies offered in the Program and earn investment management fees for providing investment advisory services to such funds or strategies (or earn other fees for providing other services). As a result, we may have a potential conflict of interest in recommending these funds or strategies over others.

**Affiliated Sweep Investments.** MSSB has a conflict of interest in selecting or recommending BDP or Money Market Funds as the Sweep Investment. See Item 5.C above for more information.

**Investments in Sweep Investments or Mutual Funds.** As described in Item 1.C above, with respect to non-Retirement Account clients, MSSB or its affiliates earn greater compensation from mutual funds than from separate accounts. At times, a manager may believe that it is in a client's interest to maintain assets in cash, particularly for defensive purposes in volatile markets. The above-described Bank Deposit Program revenue and fees for money market funds, administrative services fees for accounts of non-Retirement Account clients and

other payments create a potential for a conflict of interest to the extent that the additional payments could influence MSSB to recommend or select a strategy, model, manager or investment style that favors cash balances.

Please note that the Financial Advisor does not receive any of the Bank Deposit Program revenue, fees from money market funds or administrative services fees described herein.

**Affiliated Managers.** From time to time, we may offer managers in the CES program that are affiliated with us. Although some investment managers and/or some investment strategies may be available in more than one program, each program may offer investment managers and other features that are not available in other MSSB programs. The Client understands that we and our affiliates will receive more aggregate fees when the Client selects a Manager affiliated with us than if the Client selects a Manager that is not affiliated with us. Thus, MSSB and its Financial Advisors have a conflict of interest when identifying affiliated managers to the Client. Client may choose only unaffiliated managers if it so desires. Similarly, if a manager is not affiliated with us but we have an ownership share in the manager, we and our Financial Advisors have a conflict of interest in identifying that manager to the Client because, as an owner, we benefit from the manager's profits.

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

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

**Other Investment Products Available.** Client understands that managers may offer to the public other investment products such as mutual funds with similar investment styles and holdings as those investment products offered through the Consulting Group programs. Such products may be offered at differing fees and charges that may be higher or lower than the fees imposed by MSSB under a Consulting Group program.

A separate account investment product and a mutual fund investment product may utilize the same investment manager and investment strategy, but involve different minimum investment amounts and fees. A client's portfolio may include a mutual fund investment product even where a similar but lower cost separate account investment product is available, and

MSSB will not necessarily change to the separate account investment product if a client's assets increase to above the minimum investment amount required for the separate account investment product.

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

**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 5.C above for a description of cash sweep investments managed or held by related persons of MSSB.

## **D. Material Conflicts of Interest**

In the advisory programs described in this Brochure, MSSB recommends investment advisers to clients. Many of the

investment advisers that are available in the MSSB advisory program provide conferences and other training sessions to the Financial Advisors.

In addition, certain investment advisers also manage Funds, alternative products or act as a sub-adviser to Mutual Funds affiliated with MSSB. Since MSSB receives fees from the mutual fund or its adviser, MSSB has a conflict to recommend the mutual fund products instead of the investment adviser managing the account directly.

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

Managers are allowed to occasionally give nominal gifts to Financial Advisors, and to occasionally entertain Financial Advisors, subject to a limit of \$1,000 per employee per year. MSSB's non-cash compensation policies set conditions for each of these types of payments, and do not permit any gifts or entertainment conditioned on achieving a sales target.

We address conflicts of interest by ensuring that any payments described in this "Payments to Managers" section do not relate to any particular transactions or investment made by MSSB clients with managers. Managers participating in programs described in this Brochure are not required to make any of these types of payments. The payments described in this section comply with FINRA rules relating to such activities. Please see the discussion of Global and Emerging Partners under "Funds in Advisory Programs" in Item 5.C for more information.

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

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **A. Code of Ethics**

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

reasonable supervision to detect and prevent any violations of the Code by the individuals, branches and departments that they supervise.

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

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

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

### **B. Securities in Which You or a Related Person Have a Material Financial Interest**

See "Cash Sweeps" in Item 5.C.

### **C. Investing and Other Interests in Securities Which You or a Related Person Recommend to Clients**

See the following in Item 10.C:

- "Trading or Issuing Securities in, or Linked to Securities in, Client Accounts"



- “Restrictions on Securities Transactions”
- “Research Reports”
- “Certain Trading Systems”
- “Transaction-Related Agreements with MS&Co., Citi and Affiliates”

#### **D. Conflicts of Interest Created by Contemporaneous Trading**

See “Different Advice” in Item 10.C.

## **Item 12: Brokerage Practices**

### **A. Factors in Selecting or Recommending Broker-Dealers for Client Transactions**

MSSB does not recommend broker-dealers to effect client securities transactions. For the programs listed in this Brochure, securities are executed through MSSB.

For the programs described in this Brochure, we do not receive research or soft dollars, nor recommend other broker-dealers.

We offer, but do not recommend, request or require clients to select directed brokerage as the option to pay their investment advisory program fees.

On request, you may use direct brokerage commissions to pay your MSSB advisory fee. As described above in Item 4.B, you enter into a separate agreement with each investment manager. Your investment manager, as per your direction, directs trades to MSSB. MSSB executes trades on a best execution basis and the commissions generated compensate MSSB and the Financial Advisor. Notwithstanding the commissions that pay for MSSB’s investment advisory fee, you still pay your investment manager’s fee.

If you select a manager with a high portfolio turnover ratio (executes many trades in the portfolio) you may pay an overall fee that is higher than if you negotiated an asset-based fee that is lower than the overall transaction costs.

### **B. Aggregation of Securities Transactions for Clients**

Investment managers submit trade orders for all clients with the same strategy to MSSB. The investment manager decides how to allocate the trade orders. Please see your investment manager’s ADV Brochure for more information. For the CES and IMS programs, please contact your manager to review any manager ADV Brochures.

## **Item 13: Review of Accounts**

### **Frequency and Nature of Review of Client Accounts or Financial Plans**

At account opening, your Financial Advisor and his or her Branch Manager (or the Branch Manager’s designee) confirm

that the account and the investment strategy are suitable investments for you.

Your Financial Advisor is then responsible for reviewing your account on an ongoing basis. 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 manager is still suitable for your needs.

Consulting Group’s operations department conducts various checks on a periodic basis (e.g., inactive accounts).

See Item 15 “Custody” for a discussion of confirmations, account statements and periodic reviews.

### **Factors Prompting Review of Client Accounts other than a Periodic Review**

On an annual basis, your Financial Advisor will discuss with you if your investment criteria has changed. Additionally, if we downgrade your CES investment manager, we will generally discuss with you the options regarding a replacement investment manager.

### **Content and Frequency of Account Reports to Clients**

Unless you have appointed another custodian in a program where you may do so, MSSB is the custodian and provides you with written confirmation of securities transactions, and account statements at least quarterly. You may waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication where available. Even if you have done so, we may deliver trade confirmations after the completion of each trade. You may also receive mutual fund prospectuses, where appropriate.

We will provide periodic reviews of your account. These reviews show how your account investments have performed, either on an absolute basis or 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 access these reports in the online account service site, please go to:

<https://www.morganstanleyclientserv.com>, log on, and select “Account Documents”. If, however, you would like to receive these reports by mail, please call 1-888-454-3965.

We or our affiliates may provide the manager(s), confirmations of transactions in the account effected by us or our affiliates, and/or account statements, if a manager so requests or if required by law.

Please see Item 15 for a discussion “Custody” for additional details.

## **Item 14: Client Referrals and Other Compensation**

See Item 10.D.

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.

## Item 15: Custody

***MSSB acts as custodian.*** Unless you have appointed another custodian, MSSB is the custodian and provides you with written confirmation of securities transactions, and account statements at least quarterly. You may waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication where available. You may also receive mutual fund prospectuses, where appropriate. MSSB will maintain custody of all cash, securities and other assets in the account and the section titled “Cash Sweep” in Item 5.C below will apply to you.

We will provide periodic reviews of your account. These reviews show how your account investments have performed, either on an absolute basis or 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 access these reports in the online account service site, please go to:

<https://www.morganstanleyclientserv.com>, log on, and select “Account Documents”. If, however, you would like to receive these reports by mail, please call 1-888-454-3965.

We or our affiliates may provide the manager(s), confirmations of transactions in the account effected by us or our affiliates, and/or account statements, if a manager so requests or if required by law.

***MSSB does not act as custodian.*** In the CES and IMS programs you have the option to retain a custodian other than MSSB. Your outside custodian (“Designated Custodian”) will maintain custody of the cash, securities, and other investments in your account and will receive and credit to your account all interest, dividends, and other distributions received on the assets in the account. Since your assets are not held in custody at MSSB, they will not be included under MSSB’s SIPC coverage. Except as indicated below, all other terms of your Account Agreement will apply.

***Fees.*** Please see the section titled “Fees and Compensation” in Item 5 for details. Your Designated Custodian will advise you of your cash sweep options and the section titled “Cash Sweeps” in Item 5.C will not apply to you.

In computing the MSSB Fee, we shall rely on information received from your Designated Custodian with respect to the value of assets in the account. If any information to be provided by the Designated 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.

***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 the your Account Agreement and in this Brochure 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.

***Account Statements.*** You should arrange with the Designated Custodian to provide you and us with account statements at least quarterly, identifying the amount of funds and of each security in your account at the end of the reporting period and setting forth all transactions in your account during that period. You or your designee must notify MSSB promptly of any other changes in the account.

For trades executed through MSSB, we can provide you with copies of individual confirmations of transactions. We may also provide additional periodic reports. The election of delivery confirmations set forth in your Account Agreement.

By signing the Account Agreement, you acknowledge to us that MSSB shall have no responsibility or liability with respect to transmittal or safekeeping of such cash, securities, or other asset of the account, or the acts or omissions of the Designated Custodian or others with respect thereto. You will direct the Designated 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 Designated Custodian or any other person or entity (including access to online systems). You understand that the Designated Custodian will be liable to you pursuant to the terms of the custodian agreement and any other agreement that relates to the Designated Custodian’s services to you.

MSSB will not be liable for any failure on your part to fulfill any of your obligations under your Client Agreement including any misrepresentation or omission with respect to arrangements you must make with, and information and instructions you must provide to, the Designated Custodian; (ii) any failure of the Designated 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 Designated Custodian to fulfill its obligations, including timely provision of any information that the Designated Custodian is required to provide to us.

By signing the brokerage agreement and Account Agreement, you also acknowledge to us that (i) you are authorized to retain the Designated 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 Designated 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 Designated Custodian with respect to the securities and funds held in your account. If you instruct the Designated Custodian or manager 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 your account and that we will no longer have any further obligation to act or give advice with respect to those assets.

## **Item 16: Investment Discretion**

In the programs described in this Brochure, we do not accept investment discretion.

## **Item 17: Voting Client Securities**

For the programs described in this Brochure you may (i) authorize the Manager to receive the proxy-related materials, annual reports and other issuer-related materials for securities in the account and (ii) delegate to the manager the proxy voting rights for these securities (and, thereby, authorize the manager to further delegate these proxy voting rights to, or otherwise use services provided by, a third party proxy voting or advisory service). If you do so and you are a Retirement Account subject to the provisions of ERISA, you hereby designate the manager as a “named fiduciary” (within the meaning of ERISA) with the authority to appoint and delegate a third party proxy voting service satisfactory to the manager as “investment manager” (within the meaning of ERISA) for the limited purpose of voting proxies with respect to issuers of securities held in the account. Notwithstanding the above, you are responsible for taking action on any legal actions or administrative proceedings, including class actions and bankruptcies, affecting securities in your account and we will forward you related materials we receive. You can revoke your authorization and delegation later by giving us written notice in accordance with your Account Agreement.

Alternatively, you may expressly reserve the right for you (or another person you specify to us, not including MSSB) to receive the issuer-related materials and exercise the proxy voting rights for securities in your account.

Please note that MSSB does not accept proxy voting authority in the programs listed in this Brochure.

## **Item 18: Financial Information**

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

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

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

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

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

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

- 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, or continued to hold cash amounts in these funds after the Effective Dates:

- 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%	0.17%
Active Assets Institutional Money Trust	0.10%	None	0.08%	0.18%	0.17%
Morgan Stanley Liquid Asset Fund Inc.	0.23%	0.10%	0.12%	0.45%	0.19%
Morgan Stanley U.S. Government Money Market Trust	0.36%	0.10%	0.10%	0.56%	0.10%