

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

Select UMA® Program

**March 30, 2015**

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

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

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

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

## Item 2: Material Changes

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

**Additional GIS Investment Product.** Currently, there are Investment Products available in Select UMA, which are referred to as “GIS Investment Products”. In GIS Investment Products, MSSB, acting through its Global Investment Solutions (“GIS”) program, acts as the Sub-Manager. Neither MSSB, an affiliate, nor any third party retained by MSSB or an affiliate will evaluate, or perform due diligence on, any GIS Investment Products. A new GIS Investment Product became available in Select UMA on September 25, 2014 – Strategic 10 Dividend Strategy. (Items 4.A, 6.B, 6.C and Exhibit C)

**Additional Firm Discretion Options.** An Investing with Impact Firm Discretion option (utilizing Investment Products that seek to limit their underlying investments to investments in socially responsible firms or enterprises) became available in Select UMA on September 15, 2014; and a mutual funds and/or ETFs only Firm Discretion option became available on November 17, 2014. (Item 4.A)

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

**Account Opening.** MSSB has discontinued use of the Select UMA client agreement for opening new accounts. You must enter into the MSSB Single Advisory Contract, to open a Select UMA account.

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)

**Fees; Minimum Account Size.** There is a minimum annual MSSB Fee (calculated quarterly) for each Select UMA account that was opened after June 30, 2009 (effective July 1, 2014). This minimum is the lesser of 2% or \$250 per year. This minimum will not apply to any account that (when added to any other Consulting Group accounts with which it is related for billing purposes) has a total of \$500,000 or more in assets as of the end of the previous billing quarter. For Select UMA accounts opened on or after April 20, 2015 (whether or not the Financial Advisor Discretion or Firm Discretion option is chosen), the maximum annual MSSB Fee will be 2.50%. (Item 4.A)

Effective July 1, 2014, the minimum account size for the Select UMA Program is generally \$10,000. (Item 5)

**Selection and Review of Investment Products.** MSSB’s Global Investment Manager Analysis Group, known as “GIMA”, was formerly known as Consulting Group Investment Advisor Research Group or “CGIAR”. A termination of an Investment Product 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 Investment Product to continue to do so, and to add assets to that Investment Product. During this period, GIMA will continue to evaluate the impacted Investment Product. If GIMA downgrades the Investment Product to “Not Approved”, MSSB will terminate the Investment Product at that time. (Item 6.A)

## Item 3: Table of Contents

Item 1: Cover Page .....	1
Item 2: Material Changes .....	2
Item 3: Table of Contents .....	3
Item 4: Services, Fees and Compensation.....	4
A. General Description of the Select UMA ® Program and Services .....	4
General Description of the Select UMA Program .....	4
Account Opening .....	9
Investment Restrictions .....	9
Trading and Execution Services .....	9
Trade Confirmations, Account Statements and Performance Reviews .....	10
Consulting Group Trust Services .....	10
Risks .....	11
Tax and Legal Considerations .....	12
Fees.....	13
B. Comparing Costs .....	14
C. Additional Fees.....	15
Funds in Advisory Programs .....	15
Cash Sweeps .....	17
D. Compensation to Financial Advisors.....	19
Item 5: Account Requirements and Types of Clients .....	19
Item 6: Portfolio Manager Selection and Evaluation .....	19
A. Selection and Review of Portfolio Managers and Funds for the Program.....	19
Eligible Financial Advisors .....	19
Selection and Review of Sub-Managers, Mutual Funds and ETFs .....	19
Calculating Sub-Managers' and Funds' Performance .....	21
B. Conflicts of Interest .....	21
Conflicts of Interest – MSSB or Financial Advisor Acting as Portfolio Manager; Advisory vs. Brokerage Accounts.....	21
Other Conflicts of Interest .....	22
C. MSSB and Financial Advisors acting as Portfolio Managers.....	25
Description of Advisory Services .....	25
Tailoring Services for Individual Clients .....	25
Wrap Fee Programs .....	25
Performance-Based Fees .....	25
Methods of Analysis and Investment Strategies.....	25
Policies and Procedures Relating to Voting Client Securities .....	25
Item 7: Client Information Provided to Portfolio Managers .....	25
Item 8: Client Contact with Portfolio Managers .....	26
Item 9: Additional Information .....	26
Disciplinary Information .....	26
Other Financial Industry Activities and Affiliations .....	29
Code of Ethics .....	30
Reviewing Accounts.....	30
Client Referrals and Other Compensation .....	30
Financial Information .....	30
Exhibit A: Tax Management Terms and Conditions .....	31
Exhibit B: Affiliated Money Markets Funds Fee Disclosure Statement and Float Disclosure Statement .....	34
Exhibit C: GIS in Select UMA Methods of Analysis and Investment Strategies .....	36

## Item 4: Services, Fees and Compensation

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 U.S. with branch offices in all 50 states and the District of Columbia.

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

All clients’ assets are custodied at MSSB (except for “sweep” assets custodied at the Sweep Banks pursuant to the Bank Deposit Program). *Please see Item 4.C (Services, Fees and Compensation -- Additional Fees – Cash Sweeps -- Bank Deposit Program) below, for more information.*

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

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

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

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

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

to you and monitor your investments to ensure that they remain consistent with your objectives and risk tolerance.

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

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

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

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

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

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

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

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

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

Except as provided in the following sentence, each Sub-Manager, mutual fund and ETF indicated as an Investment Product is selected from those that are on MSSB’s Focus List or Approved List, as described in Item 6 below. Investment Products for which MSSB, Consulting Group Advisory Services LLC (an MSSB affiliate) or any employee, division, subsidiary or successor of either (i) is the Sub-Manager, (ii) is the sponsor, or (iii) provides investment management or other services, shall be referred to in this Brochure as “MSSB Investment Products.” Notwithstanding anything to the contrary provided in this Brochure, neither MSSB, an affiliate, nor any third party retained by MSSB or an affiliate will evaluate, or perform due diligence on, any MSSB Investment Products. MSSB Investment Products are not available to clients which are Retirement Accounts. *Please see Item 6 (Portfolio Manager Selection and Evaluation) below, for more information on Investment Product selection.*

Currently, there are MSSB Investment Products available in Select UMA, which are SMA Investment Products and are referred to in this Brochure as “GIS Investment Products”. In GIS Investment Products, MSSB, acting through its Global Investment Solutions (“GIS”) program, acts as the Sub-Manager. *Please see “MSSB’s role as a Sub-Manager in the Select UMA Program” in this Item 4.A below, for more information on Sub-Manager Services provided by MSSB. Please see “Methods of Analysis and Investment Strategies” in Item 6C below and see Exhibit C, for more information on the GIS Investment Products.*

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

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

### **Services Provided**

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

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

If you have not elected the “custom” version of the Model (please see below), you may choose to adopt either the “tactical” or “strategic” version of the Model. MSSB may leave the tactical or strategic Model asset allocation unchanged for as long as MSSB deems appropriate. However, it is anticipated that MSSB will change the asset allocation of the tactical version more frequently than that of the strategic version. Typically, MSSB will change the tactical Model asset allocation several times per year, while MSSB will change the strategic version only about once per year. Changes in the asset allocation or an

Asset Class Addition will likely result in transactions in your account, and these transactions could have tax consequences for a taxable account.

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

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

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

By signing the Account Agreement (as defined below), you acknowledge that (unless you elected Financial Advisor Discretion or Firm Discretion), you have been presented with a choice of, and information regarding, Investment Products for each Asset Class in your Portfolio.

In the Account Agreement with MSSB, you authorize each Sub-Manager that provides a Model Portfolio (or implements its investment decisions directly) for an Investment Product selected for or by you, to act as investment adviser to you. You authorize each Sub-Manager, as investment adviser to you, to

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

Periodically, Overlay Manager will re-balance the account back to the Model in accordance with a re-balancing protocol (the "Re-Balancing Protocol") specified by MSSB and agreed to by Overlay Manager. These transactions could have tax consequences for a taxable account. The Re-Balancing Protocol requires that the Overlay Manager will re-balance the account if and when MSSB determines that it is appropriate to do so. In addition, the Re-Balancing Protocol requires, among other things, that if Client has selected the strategic version of the Model, Overlay Manager will re-balance the account whenever MSSB adjusts the asset allocation for the strategic Model, and also periodically if the asset allocation for the account deviates from the Model allocation by an amount set by MSSB. The Re-Balancing Protocol also requires that if Client has selected the tactical version of the Model, Overlay Manager will re-balance the account whenever MSSB adjusts the asset allocation for the tactical Model. Finally, the Re-Balancing Protocol requires that if Client has selected the custom version of the Model, Overlay Manager will re-balance the account periodically if the asset allocation for the account deviates from the Model allocation by an amount set by MSSB.

From time to time, your Sub-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 Executing Sub-Managers (as defined below) with a data download of all transactions they effected on your behalf. Your selection of a Sub-Manager is deemed to be your consent to our provision of that information and data and copies of your account statements to that Sub-Manager. You may revoke that consent at any time by terminating the account.

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

In the Select UMA program, clients may elect "Firm Discretion", pursuant to which you grant MSSB discretion to (a) select Sub-Managers or Investment Products for you and (b) change the Sub-Managers or Investment Products. If you elect Firm Discretion, you may not select a "custom" Model or Financial Advisor Discretion, and your account does not qualify for Tax Management (as described below) unless you have selected either Firm Discretion Investing with Impact option described below.

Clients may choose any one of four Firm Discretion options that designate use of a particular type of Investment Product (mutual funds only, ETFs only, mutual funds and/or ETFs only, or any Investment Product type). In the event you choose a Firm Discretion option that designates use of a particular type of Investment Product (except as provided in the following sentence), only the type of Investment Product designated by you will be utilized to populate the Asset Classes comprising the Model which you have selected. Notwithstanding the foregoing, if you designate ETFs only as the Firm Discretion option, then BDP (as defined in Item 4.C below) or money market mutual funds (as well as ETFs) may be used as an Investment Product or Sweep Investment (as defined in Item 4.C below).

"Investing with Impact Investment Products" are Investment Products that seek to limit their underlying investments to investments in socially responsible firms or enterprises ("Impact Investments"). The Sub-Manager of any separately managed account or the manager of any mutual fund or ETF in the account (not the Client, Overlay Manager, MSSB or any affiliate) will determine in its sole judgment whether any underlying investments are Impact Investments. MSSB will determine in its reasonable judgment whether an Investment Product is an Investing with Impact Investment Product. The performance of Investing with Impact Investment Products will differ from that of non-Investing with Impact Investment Products.

Clients may select either the Firm Discretion Investing with Impact Equity option or the Firm Discretion Investing with Impact Balanced option. Clients who have selected either of these options ("Investing with Impact Clients") will only be permitted to select the Strategic Asset Allocation Model (they will not be permitted to select the Tactical or Custom Asset Allocation Models). The asset allocation investment Models pre-defined by MSSB for Investing with Impact Clients will be different from the Models pre-defined by MSSB for non-Investing with Impact Clients. This is because there are no Investing with Impact Investment Products for some Asset Classes.

If Client is an Investing with Impact Client, (a) MSSB will restrict its selection of Investment Products to Investing with Impact Investment Products (in the event that an Investing with Impact Investment Product is removed from the Portfolio and no replacement Investment Product that qualifies as an Investing with Impact Investment Product is available, MSSB reserves the right to utilize a non-Investing with Impact Investment Product as a replacement); (b) MSSB may select any type of Investing with Impact Investment Product (mutual fund, ETF or Separately Managed Account); and (c) the Sweep Investment will not necessarily be an Impact Investment.

Pursuant to an agreement with MSSB, Overlay Manager shall invest and re-invest the assets in each client account, except that, in certain strategies, Sub-Managers (hereinafter “Executing Sub-Managers”; “Sub-Managers” includes Executing Sub-Managers as the context requires herein) may be granted responsibility by MSSB to implement some or all investment decisions directly. Most Executing Sub-Managers are fixed income Sub-Managers. Some Executing Sub-Managers may both deliver a Model Portfolio to Overlay Manager and implement some investment decisions directly. Overlay Manager will seek to manage your account in a manner consistent with the Model and Investment Products selected by you and MSSB and the Model Portfolio provided by any applicable Sub-Manager, as qualified by any client instructions accepted by the Overlay Manager, including, without limitation, any instructions in connection with your selection of Tax Management services for the account, as described below. MSSB may change the Overlay Manager (which change may involve MSSB selecting an Overlay Manager that is or is not affiliated with MSSB) in its sole discretion at any time and for any reason. If there is a disruption in the services provided by Overlay Manager for any reason, MSSB or an affiliate may act as Overlay Manager during the period of the disruption. This may impact account performance. In addition, in the event of a disruption, MSSB may liquidate the applicable Portfolio (in whole or in part), and invest the proceeds in an affiliated or unaffiliated money market fund or other cash equivalents.

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

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

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

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

If you do not select a new Investment Product within the time frame prescribed in MSSB’s notice and if the notice identifies a replacement Investment Product, you will be deemed to have instructed MSSB (i) to discharge any terminated Sub-Manager and liquidate your account’s holdings of any terminated mutual fund or ETF and (ii) to engage on your behalf any replacement Sub-Manager, and purchase shares of any replacement mutual fund or ETF, identified by MSSB. When engaging a replacement Sub-Manager for a client’s account, the implementation of the replacement Sub-Manager’s Model Portfolio may result in liquidation of securities from the account.

Notwithstanding the previous paragraphs, unless you have elected Financial Advisor Discretion or Firm Discretion, you authorize MSSB, at MSSB’s option, to handle an Asset Class Change (as defined above) in one of the following two ways:

- i. MSSB may notify each client utilizing a Sub-Manager or Investment Product impacted by the Asset Class Change, in advance, of the Asset Class Change. Such notification may include an appropriate Sub-Manager or Investment Product (the “Change Default Product”) that is in the Asset Class that you have selected. If you do not select a different Sub-Manager or Investment Product (or change to a different Model) prior to a date specified by MSSB in the notice of Asset Class Change, MSSB will change the Sub-Manager or Investment Product to the Change Default Product.
- ii. Alternatively, MSSB may (without notifying you) leave you in the Investment Product that is subject to the Asset Class Change, and MSSB will change your asset allocation investment Model to reflect the Asset Class Change.

In the event of either (i) or (ii) above, MSSB will provide you with a confirmation of the new Investment Product or asset allocation investment Model, as applicable.

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

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

Notwithstanding the preceding paragraphs, If a client has selected an ETF as an Investment Product but due to the share price of the ETF and/or the allocation amount to that ETF pursuant to the asset allocation investment Model the Overlay Manager cannot purchase that ETF for the account, MSSB may

(without further consent from the client) purchase an appropriate mutual fund for the account, in place of that ETF.

If a client requests any change to the account, and subsequent account statements or other communications indicate that the requested change has not been implemented, the client shall promptly notify the client's Financial Advisor.

If a client requests that any security(ies) be transferred out of a Select UMA account, MSSB may suspend trading in the account until the transfer is complete (which may take several days). During this time, Fees (as defined below in this Item 4) will continue to accrue.

In the Select UMA program, a client may elect tax management ("Tax Management") services for the account. In order to elect Tax Management services prior to April 20, 2015, you must complete and sign a Tax Management Services form, and deliver the signed form to MSSB. If you elect Tax Management services for your Select UMA Account on or after April 20, 2015, you will no longer need to complete or sign a separate Tax Management Services form. Instead, you will need to tell your Financial Advisor that you desire Tax Management services, and what Maximum Tax or Realized Capital Gain Instructions you desire for your account. The Tax Management Terms and Conditions attached to this Brochure as Exhibit A will govern Tax Management services in your account. Tax Management services may conflict with investment decisions of applicable Sub-Managers and/or MSSB or Overlay Manager rebalancing decisions. In the event and to the extent of any such conflict, the Tax Management services selected by you will prevail and contrary MSSB, Overlay Manager and/or Sub-Manager investment advice will not be implemented for as long as such advice is contrary to such Tax Management services. As a result: (i) the account may not receive the benefits, including gains and avoided losses, of certain recommended purchases and sales of securities; and (ii) the account's composition and performance may vary significantly from that of client accounts for which similar Tax Management services have not been selected.

In addition to (or instead of) electing Tax Management as described in the preceding paragraph, in the Select UMA program a client may request (orally or in writing) that Overlay Manager seek to "harvest" tax losses or gains in the client's account. The client must make such request each time that the client desires "tax harvesting". Fixed income securities are not eligible for tax "harvesting". By making such a request, the client directs Overlay Manager, upon receipt of such a "harvesting" request, to (a) sell ETFs, equity securities and mutual funds in the account in order to realize capital losses or gains; (b) reinvest the proceeds from sale of equity securities, equity ETFs or mutual funds in one or more broad based ETFs, cash equivalents or other suitable investments during any applicable wash sale period; (c) reinvest the proceeds from sale of fixed income ETFs in cash or cash equivalents during any applicable wash sale period; and (d) after the expiration of any applicable wash sale period, sell the ETF or other investment and invest the proceeds in the account in accordance with the applicable Sub-Manager's Model Portfolio. The client may request tax "harvesting" as outlined above (i) for specified securities, (ii) in a specified total amount or (iii) in the maximum amount available. Securities in the account will be sold proportionately, to achieve any requested losses/gains. If the

ETF or other investment utilized increases in value during any applicable wash sale period, this increase will result in ordinary income to the client. There is no guarantee that "harvesting" requests received late in a calendar year will be completed before year-end, or that "harvesting" will achieve any particular tax result. Tax "harvesting", may adversely impact investment performance. Neither MSSB, Overlay Manager nor any affiliate make any guarantee that tax "harvesting" will be successful or provide any tax advice, and the client should consult with the client's own tax advisor regarding tax "harvesting" or any other tax issues.

MSSB is registered as an investment adviser under the Investment Advisers Act of 1940, as amended, and has received representations from Overlay Manager and each Sub-Manager that each is registered as an Investment Adviser under such Act, or is exempt from such registration.

MSSB may obtain and share information concerning the account with any of our affiliates and any nonaffiliated parties which is necessary to effect, administer, enforce or complete transactions, or to service providers in accordance with the applicable federal and state laws.

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

In GIS Investment Products, MSSB, acting through its employees who are portfolio managers in its Global Investment Solutions program, acts as a SMA Investment Product Sub-Manager. In GIS Investment Products, MSSB makes day-to-day investment decisions for those portions of clients' Select UMA accounts invested in various investment strategies that are available through the GIS Investment Products. Several professionally managed strategies are available in GIS Investment Products and are designed to fit a broad range of goals, diversification objectives and risk tolerance levels. Each team of GIS portfolio managers focuses on particular asset classes and investment approaches.

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

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

Most GIS Strategies that (a) are approved for the MSSB GIS program, (b) are implemented by the Private Portfolio Group from time to time, and (c) do not utilize unaffiliated sub-advisers, are available in the GIS in Select UMA program ("GIS in Select UMA"). The following GIS Strategies are (except as provided below) currently available in GIS in Select UMA:

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

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

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

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

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

- Opportunistic US Equity



*Managed by Portfolio Advisory Services:*

- Multi-Manager Alternatives

*Managed by Strategic Portfolios:*

- Strategic 10 Dividend

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

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

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

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

- implementing investment instructions furnished to MSSB by Sub-Managers concerning the securities to be purchased, held, or sold for client accounts, and determining the amount of securities to be purchased or sold for client accounts, in accordance with rules and procedures agreed to by MSSB and the Sub-Managers;
- placing orders for and arranging for the purchase or sale of securities with broker-dealers to implement the investment instructions of the Sub-Managers and/or communicating the amount of securities to be purchased or sold for client accounts to Executing Sub-Managers for execution with broker-dealers selected by the Executing Sub-Managers;
- placing orders for the purchase, sale, or redemption of shares of mutual funds and ETFs to implement the investment instructions of clients and/or Sub-Managers (applicable for portfolios and programs involving investment in mutual funds or ETFs);
- rebalancing client accounts among two or more Investment Products;
- implementing reasonable restrictions imposed by a client on the management of the non-mutual fund/ETF holdings portion of such client’s account; and
- managing client accounts consistent with asset allocation or Asset Class selections made by clients.

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

### **Account Opening**

To enroll in the Select UMA program, you (in consultation with your Financial Advisor) must complete an investment questionnaire. You must also enter into the MSSB Single Advisory Contract (the “Single Advisory Contract”), to open a Select UMA account. MSSB has discontinued use of the Select UMA client agreement for opening new accounts (but some existing Select UMA accounts may have been opened using the Select UMA client agreement). The Select UMA client

agreement 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 account agreement will set forth our mutual obligations regarding the investment advisory program 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. 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.

### **Investment Restrictions**

In the Select UMA program, you may request reasonable restrictions on the management of your account (may request that certain specified securities, or certain categories of securities, not be purchased for your account). This request may be made orally or in writing, but MSSB may require that any such request (or any changes to the request) be in writing. MSSB will accept reasonable restrictions on specific common equity and fixed income securities, as well as on certain categories of equity securities (e.g., tobacco companies). MSSB will determine in its reasonable judgment how to implement such restrictions, and may implement restrictions differently in accounts that have elected Tax Management services (if applicable). If you restrict a category of securities and we are implementing account investments, we will determine in our discretion which specific securities fall within the restricted category. In doing so, we may rely on outside sources (e.g. standard industry codes and research provided by independent service providers). Any restrictions you impose on individual securities will not be applied to mutual fund or ETF holdings since mutual funds and ETFs operate in accordance with the investment objectives and strategies described in their prospectuses. In Select UMA, the portion of the account that would have been invested in any restricted security or category of securities may be invested in cash or cash equivalents. This will impact the performance of the account relative to an account that is fully invested in securities.

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

### **Trading and Execution Services**

Overlay Manager or an Executing Sub-Manager will effect transactions for the purchase or sale of securities and other

investments in a client's Select UMA account. You authorize Overlay Manager or an Executing Sub-Manager to effect securities transactions for the account through MSSB, subject to legal requirements of "best execution", your needs, and, if applicable, the requirements of ERISA and the rules and regulations thereunder.

Overlay Manager or an Executing Sub-Manager has the authority to effect transactions through broker-dealers other than MSSB when Overlay Manager or an Executing Sub-Manager reasonably believes that such other broker-dealer may effect such transactions at a price, including any commissions or dealer mark-up or mark-down, that is more favorable to the account than would be the case if transacted through MSSB. In addition even if the price is not more favorable, for the selection of such broker-dealer, the Overlay Manager or an Executing Sub-Manager may consider all relevant factors, including execution capabilities, speed, efficiency, confidentiality, familiarity with potential purchasers or sellers, or any other relevant matters. MSSB refers to trades on which we are not the executing broker as "step out trades." If Overlay Manager or an Executing Sub-Manager trades with another firm, you may be assessed other trading related costs (mark-ups, mark-downs and commissions) by the other broker-dealer. Those costs are in addition to your program fees. For this reason, Overlay Manager or an Executing Sub-Manager may find that placing trades with MSSB is often the most favorable trading option for you. For the Select UMA Program, it is expected that many of transactions will be traded through MSSB. However, there are certain Executing Sub-Managers (including, but not limited to, Executing Sub-Managers offering municipal, corporate and convertible fixed income strategies) that have historically directed most, if not all, their trades to outside broker-dealers. Since the fees paid to MSSB only cover transactions effected through us, transactions through any other broker-dealer would normally include an add-on cost of the commission or the dealer mark-up or mark-down and these additional trading costs may increase your overall costs. See "Additional Fees" in Item 4.C below for details.

Where an Executing Sub-Manager effects trades for a Select UMA Account, the Existing Sub-Manager (and not MSSB) has discretion over broker-dealer selection and execution and is responsible for meeting its best execution obligations to you. Before selecting an Executing Sub-Manager for the Select UMA program, you should carefully review all material related to that Executing Sub-Manager, including any disclosure on whether the Executing Sub-Manager uses broker-dealers other than MSSB to effect any trades and any trading additional costs (brokerage commissions or other charges) associated with executing trades at such other broker-dealers. In addition, once you have selected an Executing Sub-Manager, you should carefully review the Executing Sub-Manager's trading for your account to understand any additional trading costs that may be incurred.

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

MSSB is the custodian and provides you with written confirmation of securities transactions, and account statements at least quarterly. You may waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication where available. 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, both on an absolute basis and on a relative basis compared to recognized indices (such as Standard & Poor's indices). You may access these reports through MSSB's online account services site. To 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 Sub-Manager(s), confirmations of transactions in the account effected by us or our affiliates, and/or account statements, if a Sub-Manager so requests or if required by law.

### **Consulting Group Trust Services**

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

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

As part of CG Trust Services, you or your selected trustee, with investment authority, may elect any version of the Select UMA program, including FA discretion or Firm Discretion. Additionally, certain external trust companies have contractually agreed to use the services (including MSSB custody services) described in this Brochure for each CG Trust Services client (and in some cases, former CG Trust Services clients), unless the client has issued contrary instructions, and so long as such use of

MSSB services will not cause the external trust company to violate any duty or obligation.

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

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

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

## **Risks**

All trading in an account is at your risk. The value of the assets held in an account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. Investment performance of any kind is not guaranteed, and MSSB's, a Financial Advisor's or a Sub-Manager's past performance with respect to other accounts does not predict future performance with respect to any particular account. In addition, certain investment strategies that mutual funds, ETFs or Sub-Managers may use in the Select UMA program have specific risks, including those associated with investments in common stock, fixed income securities, American Depositary Receipts, mutual funds, ETFs, 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 Sub-Manager's ADV Brochure for a discussion of the material risks associated with any Strategy you may have selected. You may obtain this at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) or by asking your Financial Advisor.

Neither MSSB, its affiliates nor any Sub-Managers will have any responsibility for your assets not in the account, nor 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. In that event, the fund's holdings are liquidated and distributed to the fund's shareholders. This liquidation process could take up to one month or more. During that time, these funds would not be available to you to support purchases, withdrawals and, if applicable, check writing or ATM debits from your account.

**Risks Relating to Master Limited Partnerships.** Master Limited Partnerships ("MLPs") are limited partnerships or limited liability companies whose interests (limited partnership or limited liability company units) are generally traded on securities exchanges like shares of common stock. Investments in MLPs 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" 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 investment 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, please see your Sub-Manager’s ADV Brochure. The current version of your Sub-Manager’s ADV Brochure is online at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV), or you can ask your Financial Advisor for a copy.

## **Tax and Legal Considerations**

Replacing a Sub-Manager or other Investment Product 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 Sub-Managers may include Master Limited Partnerships (MLPs) in their Model 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 an investor to be taxed as dividend income. If you have any questions about the tax aspects of investing into an MLP, please discuss with your tax advisor.

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

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

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

Earnings generated inside most qualified retirement plans, including defined benefit pension plans, defined contribution plans and IRAs, are generally exempt from federal income taxes, however, certain investments made by Retirement Accounts may generate taxable income referred to as “unrelated business taxable income” (“UBTI”) that is subject to taxation at trust rates. Generally, passive types of income (when not financed with debt) such as dividends, interest, annuities, royalties, most rents from real property, and gains from the sale, exchange or other disposition of property (other than inventory or property held for sale in the ordinary course of a trade or business) do not generate UBTI. Active income associated with operating a trade or business, however, may constitute UBTI to an otherwise tax exempt investor such as Retirement Accounts. In addition, UBTI may also be received as part of an investor’s allocable share of active income generated by a pass-through entity, such as partnerships (including limited partnerships and MLPs), certain trusts, subchapter S corporations, and limited liability

companies that are treated as disregarded entities, partnerships, or subchapter S corporations for federal income tax purposes.

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

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

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

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

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

## **Fees**

In the Select UMA program, the client pays an asset-based fee to MSSB (the "MSSB Fee"), which covers MSSB investment advisory services, custody of securities, trade execution with or through MSSB, as well as compensation to any Financial Advisor. This is a wrap fee. However, the Overlay Manager and Sub-Manager fees (including any applicable GIS in Select UMA Sub-Manager fees) are separate from (and in addition to) the MSSB Fee. The maximum annual MSSB Fee for the Select UMA program for accounts opened prior to April 20, 2015 is 2.00% of the market value of the client's account.

Also, for Select UMA accounts opened prior to April 20, 2015 if the Financial Advisor Discretion or Firm Discretion option is chosen, the MSSB Fee may include an additional charge for Financial Advisor or Firm discretionary services of 25% of MSSB's basic advisory fee described above for a total maximum MSSB Fee of 2.50%.

For Select UMA accounts opened on or after April 20, 2015 (whether or not the Financial Advisor Discretion or Firm Discretion option is chosen), the maximum annual MSSB Fee is 2.50%.

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

As indicated above, Overlay Manager and Sub-Manager fees are separate from (and in addition to) the MSSB Fee. The Overlay Manager fee is up to a 0.07% asset-based annual fee. The Sub-Manager fees will vary depending on the Sub-Manager and the investment strategy of the Sub-Manager. The asset-based annual fees of the Sub-Managers generally range from 0.20% to 0.75%.

The MSSB Fee, Overlay Manager Fee and any Sub-Manager Fee shall be collectively referred to as the "Fee".

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

You may make additions into the account at any time, subject to our right to terminate the account. Additions may be in cash, Funds, stocks, or bonds, provided that we reserve the right to decline to accept particular securities into the account or impose a waiting period before certain securities may be deposited. We may accept other types of securities for deposit at our discretion. You understand that if Funds are transferred or journaled into the account, you will not recover the front-end sales charges previously paid and/or may be subject to a contingent deferred sales charge or a redemption or other fee based on the length of time that you have held those securities.

We may require you to provide up to six (6) business days prior oral or written notice to your Financial Advisor of withdrawal of assets from the account, subject to the usual and customary securities settlement procedures.

If you withdraw from or deposit to the account cash or securities (or assets are otherwise removed from or added to the billable assets in the account) with a value equal to or greater than \$5,000, the Fee for the remainder of the applicable billing period will be adjusted on a pro-rata basis to reflect the withdrawal or

deposit. No Fee adjustment will be made during any billing period for withdrawals or deposits of less than \$5,000 during a billing period. No Fee adjustment will be made during any billing period for appreciation or depreciation in the value of Account assets during that period.

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

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

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

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

***Fees are Negotiable.*** Fees for the Select UMA program described in this Brochure are negotiable based on factors including the type and size of the account and the range of services provided by the Financial Advisor.

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

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

remaining portion of the Fee to Overlay Manager and any applicable Sub-Managers, to cover their respective fees.

***Breakpoints.*** Fee rates in the Select UMA program may be expressed as a fixed rate applying to all assets in the account, or as a schedule of rates applying to different asset levels, or "breakpoints." When the fee is expressed as a schedule of rates corresponding to different breakpoints, discounts, if any, are negotiated separately for each breakpoint. As the value of account assets reaches the various breakpoints, the incremental assets above each threshold are charged the applicable rates. The effective fee rate for the account as a whole is then a weighted average of the scheduled rates, and may change with the account asset level.

***Accounts Related for Billing Purposes.*** When two or more investment advisory accounts are related together for billing purposes, you can benefit even more from existing breakpoints. If you have two accounts, the "related" fees on Account #1 are calculated by applying your total assets (i.e. assets in Account #1 + assets in Account #2) to the Account #1 breakpoints. Because this amount is greater than the amount of assets solely in Account #1, you may have a greater proportion of assets subject to lower fee rates, which in turn lowers the average fee rate for Account #1. This average fee rate is then multiplied by the actual amount of assets in Account #1 to determine the dollar fee for Account #1. Likewise, the total assets are applied to the Account #2 breakpoints to determine the average fee rate for Account #2, which is then multiplied by the actual amount of assets in Account #2 to determine the dollar fee for Account #2.

Only certain accounts may be related for billing purposes, based on the law and MSSB's policies and procedures. Even where accounts are eligible to be related under these policies and procedures, they will only be related if this is specifically agreed between you and the Financial Advisor.

***ERISA Fee Disclosure for Qualified Retirement Accounts.*** In accordance with Department of Labor regulations under Section 408(b)(2) of ERISA, MSSB is required to provide certain information regarding our services and compensation to assist fiduciaries and plan sponsors of those Retirement Accounts that are subject to the requirements of ERISA in assessing the reasonableness of their plan's contracts or arrangements with us, including the reasonableness of our compensation. This information (the services we provide as well as the fees) is provided to you at the outset of your relationship with us and is set forth in this Brochure and in your advisory contract with us (including any 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.

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

## **B. Comparing Costs**

Depending on the level of trading and types of securities purchased or sold in your account, if purchased separately, you may be able to obtain transaction execution at a higher or lower cost at MSSB or elsewhere than the MSSB Fee in the Select UMA program. However, such transactions could not be executed on a discretionary basis in a brokerage account. Clients

who participate in the Select UMA program pay a fee based on the market value of the account for a variety of services, and accordingly may pay more or less for such services than if they purchased such services separately (to the extent that such services would be available separately to the client). Furthermore, the same or similar services to those available in the Select UMA program may be available at a lower fee in programs offered by other investment advisors. For certain investment styles there may be a mutual fund and separately managed account offered by the same investment management firm and, therefore, the underlying investments in the separately managed account and the mutual fund may be substantially identical. Because the underlying expenses and fees of the separately managed account are generally lower, the performance of a separately managed account is generally higher than that of the comparable mutual fund. Therefore, in these investment styles if the client meets the minimum level of investment for the separately managed account, the client may have a financial benefit to select the separately managed account as the investment product. In addition, the MSSB Consulting Group offers other programs that do not offer mutual funds or ETFs, and do not offer the services of an Overlay Manager or Sub-Managers. The fees in those programs may be higher or lower than the fees in the Select UMA program.

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

## C. Additional Fees

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

The program fees do not cover:

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

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

## Funds in Advisory Programs

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

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

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

Certain fund families (referred to as “Global Partners” or “Emerging Partners”) dedicate significant financial and staffing resources to these efforts and receive supplemental sales data analytics as well as additional opportunities to sponsor firm events and promote their funds to our Financial Advisors and clients. Global Partners commit \$550,000 per year for training and sales meeting expenses and pay a fee of \$200,000 per year for data analytics. Emerging Partners commit \$250,000

per year for training and sales expenses and pay a fee of \$100,000 per year for data analytics.. These facts present a conflict of interest for MSSB and our Financial Advisors to the extent they lead us to focus on funds from those fund families, including our Global and Emerging Partners, that commit significant financial and staffing resources to promotional and educational activities instead of on funds from fund families that do not purchase sales data analytics or do not commit similar resources to these activities. In order to mitigate this conflict, Financial Advisors and their Branch Office Managers do not receive additional compensation for recommending fund families sponsored by our Global or Emerging Partners or any other fund families that provide significant sales and training support.

Global and Emerging Partners may present a certain number of funds or other products to MSSB's Global Investment Manager Analysis Group, known as "GIMA" (formerly known as Consulting Group Investment Advisor Research Group or "CG 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 advisory programs.

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

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

#### ***Administrative Service Fees***

MSSB and/or its affiliates receive compensation from funds or their affiliated service providers for providing certain recordkeeping and related services to the funds. These charges are typically based upon the number or aggregate value of client positions and the levels of services provided. We process transactions with certain fund families on an omnibus basis, which means we consolidate our clients' trades into one daily trade with the fund, and therefore maintain all pertinent individual shareholder information to the fund. Trading in this manner requires that we maintain the transaction history necessary to track and process sales charges, annual service fees and deferred sales charges for each position, as appropriate, 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", 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) receive 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 are offered through the Select UMA program shall be 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 Select UMA 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.

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

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

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



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

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

### **Cash Sweeps**

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

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

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

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 Exhibit B to this Brochure ("Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement").

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

### **Bank Deposit Program**

Through the Bank Deposit Program, Deposit Accounts are established for you at one or more of the following banks (individually and collectively, the "Sweep Banks"): (i) Morgan Stanley Bank, N.A. and/or (ii) Morgan Stanley Private Bank, National Association. The Sweep Banks are affiliated with MSSB. The Sweep Banks pay interest on the Deposit Accounts established under the BDP. Your deposits at the Sweep Banks will be insured by the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits, in accordance with FDIC rules, and subject to aggregation of all the accounts (including, without limitation, certificates of deposit) that you hold at the Sweep Banks in the same capacity. Bank deposits held through the BDP are not covered by SIPC or excess coverage.

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

Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which will be provided to you upon your first investment in the Bank Deposit Program. You may also obtain the Bank Deposit Program Disclosure Statement as well as current interest rates applicable to your account, by contacting your Financial Advisor or through MSSB's web sites at [http://www.morganstanley.com/wealth-investmentstrategies/pdf/BDP\\_disclosure.pdf](http://www.morganstanley.com/wealth-investmentstrategies/pdf/BDP_disclosure.pdf) and [www.morganstanley.com/wealth/investmentstrategies/ratemonitor.asp](http://www.morganstanley.com/wealth/investmentstrategies/ratemonitor.asp). 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 each Sweep Bank will pay MSSB a fee equal to the percentage of the average daily deposit balances in your Deposit Account at the Sweep Banks. Your Financial Advisor will not receive a portion of these fees or credits. In addition, MSSB will not receive cash compensation or credits in connection with the BDP for assets in the Deposit Accounts for Retirement Accounts or Coverdell Education Savings accounts. Also, the affiliated Sweep Banks have the opportunity to earn income on the BDP assets through lending activity, and that income is usually significantly greater than the fees MSSB earns on affiliated Money Market Funds. Thus, MSSB has a conflict of interest in selecting or recommending BDP as the Sweep Investment, rather than an eligible Money Market Fund.

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

### ***Money Market Funds.***

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

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

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

Certain of the Money Market Funds described above have minimum investment requirements. In addition, MSSB may require a minimum initial investment to activate some or all of the Sweep Investments. If you do not meet the minimum initial investment, uninvested cash and allocations to cash in eligible accounts will remain 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. However, uninvested cash in your account will not be swept into these money market funds.

Since the Money Market Funds are sponsored or managed by MSSB affiliates, those MSSB affiliates will receive advisory fees and may receive other fees from the Money Market Funds if your account cash balances are invested in the Money Market Funds. Therefore, MSSB has a conflict of interest in selecting or recommending the Money Market Funds as your Sweep Investment. For Retirement 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 Exhibit B attached (“Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement”) for more details.

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

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

If you invest in the program described in this Brochure, a portion of the fees payable to us in connection with your account

is allocated on an ongoing basis to your Financial Advisor. The amount allocated to your Financial Advisor in connection with accounts opened in the program described in this Brochure may be more than if you participated in other MSSB investment advisory programs, or if you paid separately for investment advice, brokerage and other services. The rate of compensation we pay Financial Advisors with respect to program accounts may be higher than the rate we pay Financial Advisors with respect to transaction-based brokerage accounts. Your Financial Advisor may therefore have a financial incentive to recommend the program described in this Brochure instead of other MSSB programs or services.

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

## **Item 5: Account Requirements and Types of Clients**

**Account Minimums.** The Select UMA program generally has a minimum account size of \$10,000. The minimum may be greater than \$10,000 for some Investment Products, and for some versions of Select UMA.

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

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

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

#### **Eligible Financial Advisors**

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

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

In the Select UMA program, we offer a wide range of Investment Products (including Sub-Managers, mutual funds and ETFs) that we have selected and approved. Item 4.A above describes the basis on which we recommend particular Investment Products to particular clients. This Item 6.A describes more generally how we select and terminate

Investment Products from this program. If Sub-Managers have more than one strategy, we may include only some of those strategies in the program described in this Brochure, may carry different strategies in different programs, and assign different statuses to different strategies.

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

GIMA evaluates Investment Products other than MSSB Investment Products. GIMA may delegate some or all of its functions to an affiliate or third party. Except for MSSB Investment Products, Investment Products may only participate in the Select UMA program if they are on GIMA's Focus List or Approved List discussed below. You may obtain these lists from your Financial Advisor. Only some of the Investment Products approved by GIMA may be available in the Select UMA program.

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

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

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

**Focus List.** To be considered for the Focus List, Investment Products provide GIMA with relevant documentation on the strategy being evaluated, which may include 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 organization characteristics; and investment performance. GIMA personnel may also interview the Sub-Manager or Fund and its key personnel, and examine its operations. Following this review process, Investment Products are placed on the Focus List if they meet the required standards for Focus List status.

GIMA periodically reviews Investment Products on the Focus List. GIMA considers a broad range of factors (which may include investment performance, staffing, operational issues and financial condition). Among other things, GIMA personnel may interview each Sub-Manager or Fund periodically to discuss these matters. If GIMA is familiar with a Sub-Manager or Fund following repeated reviews, GIMA is likely to focus on quantitative analysis and interviews and not require in-person

meetings. GIMA may also review the collective performance of a composite of the MSSB accounts managed by a Sub-Manager/Fund and compare this performance to overall performance data provided by the Sub-Manager/Fund, and then investigate any material deviations.

**Approved List.** The process for including Investment Products on the Approved List is less comprehensive. Investment Products 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 Sub-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 Investment Product in a third party database. (Not all Investment Products 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 Sub-Manager or Fund additional information requests. GIMA then determines whether the Investment Product meets the standards for Approved List status.

GIMA periodically evaluates Investment Products on the Approved List and Focus List to determine whether they continue to meet the appropriate standards.

**Changes in Status from Focus List to Approved List.** GIMA may determine that an Investment Product 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 within their client statements.

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

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

In the Select UMA program, MSSB generally specifies a replacement Investment Product for a terminated Investment Product (as discussed in Item 4.A above). In selecting the replacement Investment Product, MSSB generally looks for an

Investment Product in the same asset class, and with similar attributes and holdings to the terminated Investment Product.

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

***Termination of Investment Products for Reasons Other than a GIMA Downgrade to “Not Approved”.*** As indicated above in this Item 6.A, we may terminate Investment Products from the Select UMA 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 an Investment Product, we will generally not permit clients who are not using that Investment Product to select that Investment Product for their Select UMA account. However, for a period of time (generally, about two years), we will permit clients who are using that Investment Product to continue to do so, and to add assets to that Investment Product. This is to allow impacted clients time and flexibility to work with their Financial Advisor to select a replacement Investment Product.

During this period, GIMA will continue to evaluate the impacted Investment Product. If GIMA downgrades the Investment Product to “Not Approved”, we will terminate the Investment Product 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 Investment Products on the Focus List and Approved List. Watch status indicates that, in reviewing an Investment Product, GIMA has identified specific areas of the Sub-Manager’s or Fund’s business that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the Investment Product becoming “Not Approved.” Putting an Investment Product on Watch does not signify an actual change in GIMA opinion nor is it a guarantee that GIMA will downgrade the Investment Product. The duration of a Watch status depends on how long GIMA needs to evaluate the Investment Product and for the Investment Product to address any areas of concern. For additional information, ask your Financial Advisor for a copy of GIMA’s Watch Policy.

***Tactical Opportunities List.*** GIMA also has a Tactical Opportunities List. This consists of certain Investment Products on the Focus List or Approved List recommended for

investment at a given time based in part on then-existing tactical opportunities in the market.

***Other Relationships with Sub-Managers and Funds.*** Some Sub-Managers and Funds on the Approved List or Focus List may have business relationships with us or our affiliates. For example, a Sub-Manager or Fund may use Morgan Stanley & Co. LLC (“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 nor lack of a business relationship in determining whether to include or maintain a Sub-Manager or Fund on the Approved List or Focus List.

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

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

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

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

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

## **B. Conflicts of Interest**

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

If the Select UMA client has elected Firm Discretion or Financial Advisor Discretion, the Financial Advisor (or MSSB) acts as the portfolio manager as described above. For Select UMA Accounts opened prior to April 20, 2015, if the client has elected Financial Advisor Discretion or Firm Discretion, the MSSB Fee includes an additional charge for Financial Advisor or MSSB discretionary services of 25% of MSSB’s basic advisory fee.

If the Select UMA client is utilizing GIS in Select UMA as a SMA Investment Product, MSSB (acting through a GIS portfolio manager) acts as the portfolio manager and is compensated accordingly as described above. In this case, MSSB retains all the client fee you pay in the Select UMA program. In contrast,

in Select UMA or other MSSB investment advisory programs in which an unaffiliated third party manager acts as your portfolio manager:

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

This creates a conflict of interest for MSSB, as there is a financial incentive to recommend Financial Advisor Discretion, Firm Discretion (for Select UMA Accounts opened prior to April 20, 2015) or GIS in Select UMA. As explained in Item 4.A above, GIS in Select UMA is a MSSB Investment Product (MSSB is the Sub-Manager), and accordingly neither MSSB, an affiliate, nor any third party retained by MSSB or an affiliate will evaluate, or perform due diligence on, GIS in Select UMA. Therefore, GIS in Select UMA is not subject to the same selection and review as Investment Products that are not MSSB Investment Products. The GIS business head conducts a quarterly review of each GIS investment strategy, which would monitor the GIS in Select UMA strategies for issues including diversification, style drift, cash level, dispersion and adherence to GIS program requirements.

MSSB and your Financial Advisor may earn more compensation if you invest in the program described in this Brochure than if you open a brokerage account to buy individual securities (although, in a brokerage account, you would not receive all the benefits of the program described in this Brochure). Financial Advisors and MSSB therefore have a financial incentive to recommend the program described in this Brochure.

We address these conflicts of interest by disclosing them to you and by requiring Financial Advisors' supervisors to review your account at account-opening to ensure that it is suitable for you in light of matters such as your investment objectives and financial circumstances.

### **Other Conflicts of Interest**

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

***Payments from Investment Managers.*** Please see Item 4.C above (*Additional Fees – Funds in Advisory Programs*), including the discussion of *Global and Emerging Partners*, for more information.

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

Investment managers are allowed to occasionally give nominal gifts to Financial Advisors, and to occasionally entertain Financial Advisors (subject to a limit of \$1,000 per employee per investment manager 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 from Investment Managers" section do not relate to any particular transactions or investment made by MSSB clients with investment managers. Investment managers participating in the program described in this Brochure are not required to make any of these types of payments. The payments described in this section comply with FINRA rules relating to such activities.

***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, the investment managers in its programs, and their affiliates and employees may hold a position (long or short) in the same securities held in client accounts. MSSB and/or its affiliates are regular issuers of traded financial instruments linked to securities that may be purchased in client accounts. From time to time, the trading of MSSB, a Sub-Manager or their affiliates – both for their proprietary accounts and for client accounts – may be detrimental to securities held by a client and thus create a conflict of interest. We address this conflict by disclosing it to you.

***Trade Allocations.*** MSSB or an Executing Sub-Manager may aggregate the securities to buy or sell for more than one client to obtain favorable execution to the extent permitted by law. MSSB or the Executing Sub-Manager is then responsible for allocating the trade in a manner that is equitable and consistent with its fiduciary duty to its clients (which could include, e.g., pro rata allocation, random allocation or rotation allocation). For block trade orders executed by MSSB, the price to each client is the average price for the aggregate order. MSSB performs these trade allocation functions as part of its duties as Overlay Manager, as described in Item 4.A above.

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

**Restrictions on Securities Transactions.** There may be periods during which MSSB or investment managers are not permitted to initiate or recommend certain types of transactions in the securities of issuers for which MSSB or one of its affiliates is performing broker-dealer or investment banking services or have confidential or material non-public information. Furthermore, in certain investment advisory programs, MSSB may be compelled to forgo trading in, or providing advice regarding, Morgan Stanley Parent (as defined in Item 9 below) securities, and in certain related securities. These restrictions may adversely impact your account performance.

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

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

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

**Certain Trading Systems.** MSSB may effect trades or securities lending transactions on behalf of client accounts through exchanges, electronic communication networks or other alternative trading systems ("Trading Systems"), including Trading Systems with respect to which MSSB or its affiliates may have a non-controlling direct or indirect ownership interest, or right to appoint a board member or observer. If MSSB directly or indirectly effects client trades or transactions through Trading Systems in which MSSB or its affiliates have an ownership interest, MSSB or its affiliates may receive an indirect economic benefit based on their ownership interest. In addition, subject at all times to its obligations to obtain best execution for its customers' orders, it is contemplated that MSSB will route certain customer order flow to its affiliates. Currently, MSSB and/or its affiliates (including affiliates of MS&Co.) may own over 5% of the equity interests of certain Trading Systems or their parent companies, including BATS Global Markets, Inc., which owns and operates BATS Exchange, Inc., BATS Trading Limited and Direct Edge (commonly known as "BATS"); BIDS Holdings LP and BIDS Holdings GP LLC (commonly known as "BIDS"); BOX Holdings Group LLC; Eris Exchange Holdings LLC; Equilend; iSWAP Limited; MTS Associated Markets; MuniCenter (TheDebtCenter, LLC); OTCDeriv Limited; Source Holding Ltd; TradeWeb Markets LLC; and Turquoise Global Holdings Ltd. The Trading Systems on which MSSB trades or effects securities lending transactions for client accounts and in which MSSB or its affiliates own interests may change from time to time. You may contact your Financial Advisor for an up-to-date list of Trading Systems in which MSSB or its affiliates own

interests and on which MSSB and/or MS&Co. trade for client accounts.

Certain Trading Systems offer cash credits for orders that provide liquidity to their books and charge explicit fees for orders that extract liquidity from their books. From time to time, the amount of credits that MSSB and/or MS&Co. receives from one or more Trading System may exceed the amount that is charged. Under these limited circumstances, such payments would constitute payment for order flow.

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

**Payment Arrangements with Private Portfolio Group Vendor.**

The MSSB Private Portfolio Group ("PPG") division is the Overlay Manager, and in that capacity implements certain Select UMA Portfolios as described in this ADV Brochure. A vendor which PPG utilizes to provide trade analysis has agreed to reduce the fees it charges to PPG for this trade analysis, in proportion to the number of firms that trade with PPG and who subscribe to the vendor's services. Although all firms that trade with PPG subscribe to this vendor's services, this could create a conflict of interest for MSSB in that PPG's fees paid to this vendor would be further reduced if PPG increased the number of firms it trades with. PPG has not and will not consider this potential reduction in the fees it pays in any way, either in determining the number of firms it will trade with or in continuing to contract with this vendor.

**Transaction-Related Agreements with MS&Co. and Affiliates.**

In connection with creating MSSB, certain agreements were entered into between or involving some or all of MSSB, MS&Co. and their affiliates. Some of these agreements, including the following, remain in effect even though MSSB is now a wholly owned subsidiary of Morgan Stanley Parent (as defined in Item 9 below):

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

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

**Affiliated Investment Products.** Certain of the Investment Products in the Select UMA program (including GIS Investment Products) are affiliated with MSSB. As to each Asset Class,

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

***Affiliated Sweep Investments.*** MSSB has a conflict of interest in selecting or recommending BDP or Money Market Funds as the Sweep Investment. See Item 4.C above (*Services, Fees and Compensation -- Additional Fees -- Cash Sweeps -- Bank Deposit Program and Money Market Funds*), for more information.

***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 Sub-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) a mutual fund or ETF Investment Product, instead of a separate account Investment Product, or (b) a Model, Sub-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.

***Nonpublic Information.*** In the course of investment banking or other activities, MSSB, the Investment Products, and each of their respective affiliates and Agents may from time to time

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

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

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

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

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

***Consulting Group Trust Services.*** MSSB has made arrangements to have a number of external trust companies



participate in CG Trust Services. *Please see Item 4.A above, for a full description of services and potential conflicts of interest.*

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

### **Description of Advisory Services**

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

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

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

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

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

### **Wrap Fee Programs**

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

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

### **Performance-Based Fees**

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

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

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

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

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

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

Unless you authorize the Sub-Managers or us to vote proxies, we will forward to you any proxy materials that we receive for securities in your account. Unless we vote proxies for you, we cannot advise you on particular proxy solicitations. If the Sub-Managers (including MSSB) vote proxies for you, you cannot instruct them on how to cast any particular vote.

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

***MSSB's Proxy Voting Policies and Procedures.*** If MSSB is the Sub-Manager and you have delegated proxy voting authority to the Sub-Manager as provided above, you may obtain information as to how MSSB voted proxies for your account during the prior annual period, from your Financial Advisor. You may also obtain a copy of MSSB's relevant proxy voting policies and procedures (including a copy of the Proxy Voting Service's policy guidelines and vote recommendations in effect from time to time), from your Financial Advisor.

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

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

If the Select UMA client has elected Financial Advisor Discretion, the Financial Advisor acts as the portfolio manager as described above. The Financial Advisor has access to the information you provide at and subsequent to account opening

(the “Client Information”), including information regarding your investment objectives, financial information, risk tolerance and any reasonable restrictions you may impose on management of your account. This includes information in the client profile and investment questionnaire you complete (or your Financial Advisor completes for you) as part of the account opening process.

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

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

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

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

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

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

## **Item 9: Additional Information**

### **Disciplinary Information**

This section contains information on certain legal and disciplinary events.

In this section, “MSDW” means Morgan Stanley DW Inc., a predecessor broker-dealer of MS&Co. and registered investment adviser that was merged into MS&Co. in April 2007. MS&Co. and Citigroup Global Markets Inc. (“CGM”) are predecessor broker-dealer firms of MSSB. “Citi” means Citigroup Inc., a former indirect part owner of MSSB.

- On May 31, 2005, the SEC issued an order in connection with the settlement of an administrative proceeding against Smith Barney Fund Management LLC (“SBFM”) and CGM relating to the appointment of an affiliated transfer agent for

the Smith Barney family of mutual funds (“Smith Barney Funds”). SBFM was an affiliate of CGM during the applicable period.

The SEC order found that SBFM and CGM willfully violated section 206(1) of the Investment Advisers Act of 1940 (“Advisers Act”). Specifically, the order found that SBFM and CGM knowingly or recklessly failed to disclose to the Boards of the Smith Barney Funds in 1999 when proposing a new transfer agent arrangement with an affiliated transfer agent that: First Data Investors Services Group (“First Data”), the Smith Barney Funds’ then-existing transfer agent, had offered to continue as transfer agent and do the same work for substantially less money than before; and Citigroup Asset Management (“CAM”), the Citi business unit that includes the Smith Barney Funds’ investment manager and other investment advisory companies, had entered into a side letter with First Data under which CAM agreed to recommend the appointment of First Data as sub-transfer agent to the affiliated transfer agent in exchange, among other things, for a guarantee by First Data of specified amounts of asset management and investment banking fees to CAM and CGM. The order also found that SBFM and CGM willfully violated section 206(2) of the Advisers Act by virtue of the omissions discussed above and other misrepresentations and omissions in the materials provided to the Smith Barney Funds’ Boards, including the failure to make clear that the affiliated transfer agent would earn a high profit for performing limited functions while First Data continued to perform almost all of the transfer agent functions, and the suggestion that the proposed arrangement was in the Smith Barney Funds’ best interests and that no viable alternatives existed. SBFM and CGM did not admit or deny any wrongdoing or liability. The settlement did not establish wrongdoing or liability for purposes of any other proceeding.

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

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

- In a LAWC dated August 1, 2005, the NASD found that MSDW failed to establish and maintain a supervisory system, including written procedures, reasonably designed to

review and monitor MSDW's fee-based brokerage business, between January 2001 and December 2003. Without admitting or denying the allegations, MSDW consented to the described sanctions and findings and was censured and fined \$1.5 million, and agreed to the payment of restitution to 3,549 customers in the total amount of approximately \$4.7 million, plus interest.

- The SEC alleged that MS&Co. violated the Exchange Act by inadvertently failing to timely produce emails to the SEC staff pursuant to subpoenas in the SEC's investigation into MS&Co.'s practices in allocating shares of stock in IPOs and an investigation into conflicts of interest between MS&Co.'s research and investment banking practices. Without admitting or denying the allegations, MS&Co. consented to a final judgment on May 12, 2006 in which it was permanently restrained and enjoined from violating the Exchange Act. MS&Co. agreed to make payments aggregating \$15 million, which amount was reduced by \$5 million contemporaneously paid by MS&Co. to the NASD and the NYSE in related proceedings. MS&Co. also agreed to notify the SEC, the NASD and the NYSE that it has adopted and implemented policies and procedures reasonably designed to ensure compliance with the Exchange Act. MS&Co. also agreed to provide annual training to its employees responsible for preserving or producing electronic communications and agreed to retain an independent consultant to review and comment on the implementation and effectiveness of the policies, procedures and training.
- On June 27, 2006, the SEC announced the initiation and concurrent settlement of administrative cease and desist proceedings against MS&Co. and MSDW for failing to maintain and enforce adequate written policies and procedures to prevent the misuse of material nonpublic information. The SEC found that from 1997 through 2006, MS&Co. and MSDW violated the Exchange Act and the Advisers Act by failing to (1) conduct any surveillance of a number of accounts and securities; (2) provide adequate guidance to MS&Co.'s and MSDW's personnel charged with conducting surveillance; and (3) have adequate controls in place with respect to certain aspects of "Watch List" maintenance. The SEC's findings covered different areas from the 1997 through 2006 time period. MS&Co. and MSDW were ordered to pay a civil money penalty of \$10 million and agreed to enhance their policies and procedures.
- On August 21, 2006, MS&Co. and MSDW entered into a LAWC relating various finds that, at various times between July 1999 and 2005, MS&Co. violated a number of NASD and SEC rules. The violations related to areas including trade reporting through the Nasdaq Market Center (formerly Automated Confirmation Transaction Service (ACT)), Trade Reporting and Compliance Engine (TRACE) and Order Audit Trail System (OATS); market making activities; trading practices; short sales; and large options positions reports. The NASD also found that, at various times during December 2002 and May 2005, MSDW violated NASD rules and Municipal Securities Rulemaking Board ("MSRB") rules related to areas including trade reporting through TRACE, short sales, and OATS. The NASD further found that, in certain cases, MS&Co. and MSDW violated NASD Rule 3010 because their supervisory systems did not provide

supervision reasonably designed to achieve compliance with securities laws, regulations and/or rules.

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

- On May 9, 2007, the SEC issued an Order ("May 2007 Order") settling an administrative action with MS&Co. In this matter, the SEC found that MS&Co. violated its duty of best execution under the Exchange Act. In particular, the SEC found that, during the period of October 24, 2001 through December 8, 2004, MS&Co.'s proprietary market-making system failed to provide best execution to certain retail OTC orders. In December 2004, MS&Co. removed the computer code in the proprietary market-making system that caused the best execution violations. MS&Co. consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, to pay disgorgement of approximately \$5.9 million plus prejudgment interest on that amount, and to pay a civil penalty of \$1.5 million. MS&Co. also consented to retain an Independent Compliance Consultant to review its policies and procedures in connection with its market-making system's order handling procedures and its controls relating to changes to those procedures, and to develop a better plan of distribution.
- On July 13, 2007, the NYSE issued a Hearing Board Decision in connection with the settlement of an enforcement proceeding brought in conjunction with the New Jersey Bureau of Securities against CGM. The decision held that CGM failed to (1) adequately supervise certain branch offices and Financial Advisors who engaged in deceptive mutual fund market timing on behalf of certain clients from January 2000 through September 2003 (in both proprietary and non-proprietary funds); (2) prevent the Financial Advisors from engaging in this conduct; and (3) make and keep adequate books and records. Without admitting or denying the findings, CGM agreed to (a) a censure; (b) establishing a \$35 million distribution fund for disgorgement payments; (c) a penalty of \$10 million (half to be paid to the NYSE and half to be paid to the distribution fund); (d) a penalty of \$5 million to be paid to the State of New Jersey; and (e) appointing a consultant to develop a plan to pay CGM's clients affected by the market timing.
- On September 27, 2007, MS&Co. entered into a LAWC with the Financial Industry Regulatory Authority ("FINRA"). FINRA found that, from October 2001 through March 2005, MSDW provided inaccurate information to arbitration claimants and regulators regarding the existence of pre-September 11, 2001 emails, failed to provide such emails in response to discovery requests and regulatory inquiries, failed adequately to preserve books and records, and failed to

establish and maintain systems and written procedures reasonably designed to preserve required records and to ensure that it conducted adequate searches in response to regulatory inquiries and discovery requests. FINRA also found that MSDW failed to provide arbitration claimants with updates to a supervisory manual in discovery from late 1999 through the end of 2005. MS&Co. agreed, without admitting or denying these findings, to establish a \$9.5 million fund for the benefit of potentially affected arbitration claimants. In addition, MS&Co. was censured and agreed to pay a \$3 million regulatory fine and to retain an independent consultant to review its procedures for complying with discovery requirements in arbitration proceedings relating to its retail brokerage operations.

- On October 10, 2007, MS&Co. became the subject of an Order Instituting Administrative and Cease-And-Desist Proceedings (“October 2007 Order”) by the SEC. The October 2007 Order found that, from 2000 until 2005, MS&Co. and MSDW failed to provide to their retail customers accurate and complete written trade confirmations for certain fixed income securities in violation of the Exchange Act and MSRB rules. In addition, MS&Co. was ordered to cease and desist from committing or causing any future violations, and was required to pay a \$7.5 million penalty and to retain an independent consultant to review MS&Co.’s applicable policies and procedures. MS&Co. consented to the issuance of the October 2007 Order without admitting or denying the SEC’s findings.
- On December 18, 2007, MS&Co. became the subject of an Order Instituting Administrative Cease-and-Desist Proceedings (“December 2007 Order”) by the SEC. The December 2007 Order found that, from January 2002 until August 2003, MSDW (1) failed to reasonably supervise four Financial Advisors, with a view to preventing and detecting their mutual fund market-timing activities and (2) violated the Investment Company Act of 1940 by allowing multiple mutual fund trades that were placed or amended after the close of trading to be priced at that day’s closing net asset value. The December 2007 Order also found that, from 2000 through 2003, MSDW violated the Exchange Act by not making and keeping records of customer orders placed after the market close and orders placed for certain hedge fund customers in variable annuity sub-accounts. Without admitting or denying the SEC’s findings, MS&Co. agreed to a censure, to cease and desist from future violations of the applicable provisions, to pay a penalty of approximately \$11.9 million, to disgorge profits related to the trading activity (including prejudgment interest) of approximately \$5.1 million and to retain an independent distribution consultant.
- In May 2005, MS&Co. and MSDW discovered that, from about January 1997 until May 2005, their order entry systems did not check whether certain secondary market securities transactions complied with state registration requirements known as Blue Sky laws. This resulted in the improper sale of securities that were not registered in 46 state and territorial jurisdictions. MS&Co. and MSDW conducted an internal investigation, repaired system errors, self-reported the problem to all affected states and the NYSE, identified transactions which were executed in violation of the Blue

Sky laws, and offered rescission to affected customers. MS&Co. settled the state regulatory issues in a multi-state settlement with the 46 affected state and territorial jurisdictions. Under the settlement, MS&Co. consented to a cease and desist order with, and agreed to pay a total civil monetary penalty of \$8.5 million to be divided among, each of the 46 state and territorial jurisdictions. The first order was issued by Alabama on March 19, 2008, and orders are expected to be issued by subsequent states over the coming months.

- On August 13, 2008, MS&Co. agreed on the general terms of a settlement with the NYAG and the Office of the Illinois Secretary of State, Securities Department (“Illinois”) (on behalf of a task force of the North American Securities Administrators Association (“NASAA”)) with respect to the sale of auction rate securities (“ARS”). MS&Co. agreed, among other things, to repurchase at par approximately \$4.5 billion of illiquid ARS held by certain clients of MS&Co. which were purchased prior to February 13, 2008. Additionally, MS&Co. agreed to pay a total fine of \$35 million. Final agreements were entered into with the NYAG on June 2, 2009 and with Illinois on September 17, 2009. The Illinois agreement serves as the template for agreements with other NASAA jurisdictions.
- On November 13, 2008, in connection with the settlement of a civil action arising out of an investigation by the SEC into CGM’s underwriting, marketing and sale of ARS, CGM, without admitting or denying the allegations of the SEC’s complaint, except as to those relating to personal and subject matter jurisdiction, which were admitted, consented to the entry in the civil action of a Judgment As To Defendant Citigroup Global Markets Inc. (“November 2008 Judgment”). Thereafter, on December 11, 2008, the SEC filed its civil action in the federal district court for the Southern District of New York (“Court”). The November 2008 Judgment, which was entered on December 23, 2008 (i) permanently enjoined CGM from directly or indirectly violating section 15(c) of the Exchange Act; (ii) provides that, on later motion of the SEC, the Court is to determine whether it is appropriate to order that CGM pay a civil penalty pursuant to section 21(d)(3) of the Exchange Act, and if so, the amount of the civil penalty; and (iii) ordered that CGM’s Consent be incorporated into the November 2008 Judgment and that CGM comply with all of the undertakings and agreements in the Consent, which include an offer to buy back at par certain ARS from certain customers. The SEC’s complaint alleged that (1) CGM misled tens of thousands of its customers regarding the fundamental nature of and risks associated with ARS that CGM underwrote, marketed and sold; (2) through its financial advisers, sales personnel and marketing materials, CGM misrepresented to customers that ARS were safe, highly liquid investments comparable to money market instruments; (3) as a result, numerous CGM customers invested in ARS funds they needed to have available on a short-term basis; (4) in mid-February 2008, CGM decided to stop supporting the auctions; and (5) as a result of the failed auctions, tens of thousands of CGM customers held approximately \$45 billion of illiquid ARS, instead of the liquid short-term investments CGM had represented ARS to be. CGM reached substantially similar settlements with the NYAG and the Texas State Securities

Board (“TSSB”), although those settlements were administrative in nature and neither involved the filing of a civil action in state court. The settlements with the NYAG and the TSSB differed somewhat from the settlement with the SEC in that the state settlements (a) made findings that CGM failed to preserve certain recordings of telephone calls involving the ARS trading desk; and (b) required CGM to refund certain underwriting fees to certain municipal issuers. In addition, as part of the settlement with New York, CGM paid a civil penalty of \$50 million. CGM also agreed in principle to pay to states other than New York with which it enters into formal settlements a total of \$50 million. CGM paid \$3.59 million of this \$50 million to Texas as part of the settlement with that state. CGM expects it will reach settlements with the remaining states.

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

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

## Other Financial Industry Activities and Affiliations

Morgan Stanley (“Morgan Stanley Parent”) is a financial holding company under the Bank Holding Company Act of 1956. Morgan Stanley Parent is a corporation whose shares are publicly held and traded on the New York Stock Exchange. Prior to June 28, 2013, MSSB was owned by a joint venture company which was indirectly owned 65% by Morgan Stanley Parent and 35% by Citi. On June 28, 2013, Morgan Stanley Parent purchased Citi’s 35% interest in MSSB. Accordingly, MSSB is now a wholly owned indirect subsidiary of Morgan Stanley Parent.

**Activities of Morgan Stanley Parent.** Morgan Stanley Parent is a global firm engaging, through its various subsidiaries, in a wide range of financial services including:

- securities underwriting, distribution, trading, merger, acquisition, restructuring, real estate, project finance and other corporate finance advisory activities
- merchant banking and other principal investment activities
- brokerage and research services
- asset management
- trading of foreign exchange, commodities and structured financial products and

- global custody, securities clearance services, and securities lending.

**Broker-Dealer Registration.** As well as being a registered investment advisor, MSSB is registered as a broker-dealer.

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

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

These restrictions may adversely impact client account performance.

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

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

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

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

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

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

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

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

## **Code of Ethics**

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

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

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

- Certain Employees, because of their potential access to non-public information, must obtain prior written approval or provide pre-trade notification before executing certain securities transactions for their personal securities accounts. All Employees must also follow special procedures for investing in private securities transactions.
- Certain Employees are subject to further restrictions on their securities transaction activities (including Financial Advisors and other MSSB employees who act as portfolio managers in MSSB investment advisory programs).

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

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

## **Reviewing Accounts**

At account opening, your Financial Advisor and his or her Branch Manager (or the Branch Manager’s designee) confirm that the account and the investment strategy are suitable investments for you.

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

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

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

## **Client Referrals and Other Compensation**

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

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

## **Financial Information**

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

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

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

## **Exhibit A**

### **Tax Management Terms and Conditions**

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

#### **A. INTRODUCTION**

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

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

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

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

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

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

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



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



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

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

#### D. CLIENT ACKNOWLEDGMENT AND AGREEMENT

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

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

## **Exhibit B**

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

#### **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 (e.g., EBT, RPM and VIP accounts) and CESAs.

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

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

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

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

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

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

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

#### **Interest Earned on Float**

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

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

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

Generally, with respect to such assets awaiting investment:

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

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

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

- The rate of Advisory Fee and Distribution and Service Fees (including 12b-1 fees) (whether in basis points or dollars) may not be increased without first obtaining shareholder approval.

- Expenses designated as “Other Expenses” include all expenses not otherwise disclosed in the table that were deducted from each fund’s assets or charged to all shareholder accounts in the stated fiscal year (and may change from year to year).

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

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

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

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

The fund expense information below reflects the most recent information available to us as of February 12, 2015, and is subject to change. Please refer to the funds’ current prospectuses, statements of additional information and annual reports for more information.

<b>Fund</b>	<b>Advisory Fee</b>	<b>Distribution and Service Fees</b>	<b>Other Expenses</b>	<b>Total Annual Fund Operating Expenses</b>	<b>Total Annual Fund Operating Expenses After Fee Waivers and/or Expense Reimbursements</b>
Active Assets Money Trust	0.25%	0.10%	0.07%	0.42%	0.18%
Active Assets Government Securities Trust	0.45%	0.10%	0.11%	0.66%	0.08%
Active Assets Institutional Government Securities Trust	0.10%	None	0.08%	0.18%	0.17%
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%

## Exhibit C

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

#### 1. Applied Equity Advisors

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

#### 2. Fundamental Equity Advisors

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

generating cash flow from activities such as the transportation, gathering, processing and storage of hydrocarbons, including natural gas, crude oil and refined petroleum products. The performance benchmark for the portfolio will be the Alerian MLP Index. The Fundamental MLP Portfolio is not available to retirement plan investors.

### 3. **Opportunistic Equity**

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

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

- ***Multi-Manager Alternatives Strategy:*** This is an actively managed strategy that invests in mutual funds and ETFs that are generally registered under the Investment Company Act of 1940, as amended, that seek to pursue alternative investment strategies or returns. This Strategy’s primary objective is capital appreciation, and it seeks to deliver a long term risk and return profile similar to the strategies employed by a diversified universe of hedge funds.

### 5. **Strategic Portfolios**

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