

# **Form ADV Wrap Fee Program Brochure**

## **Morgan Stanley Smith Barney LLC**

Alternative Investments Advisory Program  
Alternative Investments Advisory-Custom Portfolio Program  
Alternative Investments Advisory-Discretionary Manager Services Program  
Alternative Investments Advisory-Hedge Fund Portfolio Advisory Program

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

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

## Item 2: Material Changes

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

**Account Opening (AIA).** Effective April 20, 2015, MSSB will implement a new form of Single Advisory Contract (the “Single Advisory Contract”) which will be used to open new Consulting Group accounts, including Alternative Investments Advisory (“AIA”) 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 will cover additional Consulting Group programs (Global Investment Solutions and AIA). The new form of Single Advisory Contract will amend any Single Advisory Contract that you signed, in accordance with its terms. The Single Advisory Contract will be used for AIA, but will not be used for CP, DMS, or HFP. (Item 4.A)

**Alternative Investments Advisory-Custom Portfolio Program.** The CP program now offers qualified clients consulting and administrative services from MSSB and access to non-discretionary custom portfolio construction advice from an affiliate of MSSB (the “CP Manager”). In CP, MSSB recommends the CP Manager to you that may provide you advice on a portfolio of Alternative Investments. In CP, MSSB conducts due diligence on the CP Manager, but does not provide investment advice on the Alternative Investments recommended by the CP Manager.

Based on the investment objectives and requirements (including any restrictions) provided by you to MSSB and the CP Manager, the CP Manager will generate an Investment Policy Statement and identify suitable Alternative Investments for your portfolio. The CP Manager will not be limited to the Alternatives Approved List and, therefore, may recommend Alternative Investments that have not received due diligence from MSSB.

You will enter into a Client Agreement with MSSB and a separate investment management agreement with the CP Manager. You may also sign separate fund documentation for each Selected Investment Product. You will pay a separate fee to the manager of each Selected Investment Product.

The CP Manager may recommend a change of Alternative Investments if, e.g., your investment objectives or market conditions change or if, for some other reason, another Alternative Investment would be more appropriate for you.

The CP program is non-discretionary and the decision to participate in CP and invest in any Alternative Investment

recommended by the CP Manager is made by you and is your responsibility. MSSB will monitor the CP Manager and will notify you if it no longer recommends the CP Manager as an investment adviser to provide non-discretionary portfolio advisory services to clients of MSSB. (Item 4.A)

**Alternative Investments Advisory-Hedge Fund Portfolio Advisory Program.** The HFP program offers qualified clients consulting, administrative services and access to non-discretionary custom portfolio construction advice from MSSB (in such capacity, the “HFP Manager”).

The HFP Manager will recommend Alternative Investments from the Alternatives Approved List based on portfolios developed by an MSSB-affiliate and the HFP Manager’s assessment of your needs based on the investment objectives and requirements (including any restrictions) provided by you to your Financial Advisor and the HFP Manager.

The HFP Manager will monitor your portfolio and may recommend a change if, e.g., your investment objectives or market conditions change or if, for some other reason, the HFP Manager believes that another Alternative Investment would be more appropriate for you. See also *Changes in Availability of Alternative Investments* in this Section 4.A. under *Alternative Investments Advisory Program*.

You will sign a client services agreement with the HFP Manager and separate fund documentation for each Selected Investment Product. You will pay separate fees to the manager of each Selected Investment Product.

The HFP program is non-discretionary and the decision to participate in HFP and invest in any Alternative Investment is made by you and is your responsibility. (Item 4.A)

**Fees.** For our services in the programs, you pay MSSB an asset-based fee as described in your Client Agreement. In CP, DMS and HFP, you also pay a fee to the CP Manager, the DMS Manager or the HFP Manager, respectively. The maximum total annual fee is 2.00%, except for AIA accounts opened on or after April 20, 2015, where the maximum annual fee will be 2.50%.

Alternative Investments also have fees that are paid to the manager of the Alternative Investment. We do not pay the manager of the Alternative Investment any part of the fee that you pay to us. In CP or DMS, at your election, we may pay, on your behalf, the fee owed by you to the CP Manager or the DMS Manager, respectively, for the advisory services they provide to you.

In the Programs, MSSB may allocate a portion of your fee to your Financial Advisor and, if applicable, to an unaffiliated or affiliated due diligence service provider or other service provider. In HFP, the HFP Manager will receive up to 0.40% for its portfolio advisory services. (Item 4.A)

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## Item 4: Services, Fees and Compensation

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

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

In serving as investment adviser to its clients (“client”, “you” and “your”) in these programs, MSSB is a fiduciary to you. We are registered under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) 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” (as that term is described herein). For purposes of this brochure, the term “Retirement Account” will be used to cover (i) “employee benefit plans” (as defined under Section 3(3) of ERISA, which include pension, profit-sharing or welfare plans sponsored by private employers, as well as similar arrangements sponsored by governmental or other public employers; (ii) individual retirement accounts “IRAs” (as described in Section 4975 of the Code); and “Coverdell Educational Savings Accounts (“CESAs”).

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

### **A. General Description of Programs and Services**

MSSB administers and oversees the following programs that are described below: Alternative Investments Advisory (“AIA”), Alternative Investments Advisory-Custom Portfolio (“CP”), Alternative Investments Advisory-Discretionary Manager Services (“DMS”), and Alternative Investments Advisory-Hedge Fund Portfolio Advisory (“HFPA”, together with AIA, CP and DMS, the “Programs”). This section then discusses various

general matters applying to these programs. The services provided in these programs are subject to change without notice. You should consult with your Financial Advisor for further details.

### **Alternative Investments Advisory Program**

The AIA program provides consulting and administrative services to qualified clients that seek to invest in certain affiliated and unaffiliated alternative investment vehicles (“Alternative Investments”) that have been approved by MSSB.

Alternative Investments include: (1) MSSB-affiliated and unaffiliated single manager alternative investment vehicles, such as hedge funds and private equity; (2) MSSB-affiliated and unaffiliated investment vehicles, such as fund of funds or managed futures funds, that allocate money to other investment funds and/or investment managers or commodity trading advisors who in turn invest in other alternative investment asset classes; and (3) investments in feeder funds sponsored by MSSB to invest in specific underlying investment vehicles managed by affiliated and unaffiliated investment advisers chosen by MSSB through the HedgePremier program (“HedgePremier”).

After receipt of appropriate information from and about you (which may include your investment objectives, risk tolerance, and investment time horizon), MSSB will identify several Alternative Investments deemed suitable for you from the Alternative Investments available on the Alternatives Approved List (as defined in Changes to Available Alternative Investments, below). You may also consider other Alternative Investments on the Alternatives Approved List, subject to eligibility and minimum investment requirements. For each Alternative Investment that you are considering, you should review the manager’s ADV Part 2, where available, for a discussion on their particular method of analysis and investment strategy.

You will sign a client services agreement with MSSB and separate fund documentation for each Alternative Investment in which you decide to invest (each, a “Selected Investment Product”). You will pay a separate fee to the manager of each Selected Investment Product.

The decision to participate in AIA and invest in any Selected Investment Product is made by you and is your responsibility.

If you wish to continue to participate in a Selected Investment Product that has received a status change to “Terminate”, (i) MSSB shall no longer provide any recommendation or advice regarding such alternative investment and (ii) your account will become a brokerage account. In HedgePremier, removal of a Selected Investment Product from the Alternatives Approved List may result in the full liquidation of the HedgePremier fund’s investment in the Selected Investment Product by HedgePremier’s program manager).

***Changes in Availability of Alternative Investments.*** Alternative Investments offered through AIA are subject to change in availability by MSSB. MSSB, directly through its Global Investment Manager Analysis Group, known as “GIMA”

(formerly known as Alternative Investments Research or “AIR”) or through an affiliated or unaffiliated service provider selected and approved by MSSB, provides due diligence and monitoring services with respect to the Alternative Investments that are available in AIA. MSSB may or may not, in its sole discretion, create and make available a written report of such review. As part of this process, MSSB will, directly or through an affiliated or unaffiliated service provider, periodically monitor the Alternative Investments for purposes of determining whether they should remain on the list of approved funds in which qualified clients may invest (the “Alternatives Approved List”). From time to time, MSSB may decide to add, temporarily suspend, or remove certain Alternative Investments from the Alternatives Approved List by MSSB. The four statuses are “Approved”, “Watch”, “Redeem” or “Terminate”. If MSSB decides to remove an Alternative Investment from the Alternatives Approved List, the Alternative Investment will receive two status changes - first, to “Redeem” and later, to “Terminate” which will impact the services MSSB provides and the fees you may pay on the Alternative Investment:

- *Redeem*: If an Alternative Investment’s status is changed to “Redeem” or a similar designation, the Alternative Investment will no longer be available for investment through MSSB but MSSB, directly or through an affiliated or unaffiliated service provider selected and approved by MSSB, will continue to perform due diligence and charge you the fee set out in your Client Agreement until the status is changed to “Terminate” or until a date as MSSB might otherwise determine in its sole discretion.
- *Terminate*: If an Alternative Investment’s status is changed to “Terminate” or a similar designation, unless otherwise agreed in writing between you and MSSB, (A) MSSB will terminate due diligence coverage of the Alternative Investment, (B) as it relates to that Alternative Investment, MSSB will cease acting as your investment adviser and you will stop paying the fee set out in your Client Agreement (although you will continue to pay any underlying management fees to the investment manager of the Alternative Investment for as long as you retain the Alternative Investment), (C) the Alternative Investment will no longer be part of the AIA account and will be transferred to a brokerage account, and (D) you will become solely responsible for any decision to remain invested in the Alternative Investment. To the extent you remain invested in the Alternative Investment after the status change to Terminate, MSSB may continue to provide performance reports and account statements to you and you will pay an annual fee of up to 0.25% of your remaining assets in that Alternative Investment that were previously in AIA, payable quarterly in advance, which may be waived or reduced at the sole discretion of MSSB, for such non-advisory services. MSSB may also retain a non-advisory, ongoing distribution fee directly from the Alternative Investment or the manager of the Alternative Investment (if available).

In HedgePremier, removal of an Alternative Investment from the Alternatives Approved List may result in the full liquidation of the HedgePremier fund’s investment in the Alternative Investment by HedgePremier’s program manager.

Prior to investing, you should review the offering materials for such illiquid investments, in particular the terms of any restrictions on the premature termination or liquidation of your Selected Investment Product. Your Financial Advisor may also recommend a change of Alternative Investments if, e.g., your investment objectives or market conditions change or if, for some other reason, another Alternative Investment would be more appropriate for you.

The AIA program is non-discretionary and the decision to participate in AIA and the selection of any Selected Investment Product is made by you and is your responsibility. At any time, you may terminate your investment (subject to the restrictions applicable to the Selected Investment Product) by complying with MSSB’s procedures and, if you wish, select a new Alternative Investment for your account so that you continue to receive the services available in the program.

The decision to participate in AIA and the selection of any Alternative Investment is made by you and is your responsibility.

### **Alternative Investments Advisory-Custom Portfolio Program**

The CP program offers qualified clients consulting and administrative services from MSSB and access to non-discretionary custom portfolio construction advice from an affiliate of MSSB (the “CP Manager”). In CP, MSSB recommends the CP Manager to you that may provide you advice on a portfolio of Alternative Investments. In CP, MSSB conducts due diligence on the CP Manager, but does not provide investment advice on the Alternative Investments recommended by the CP Manager.

Based on the investment objectives and requirements (including any restrictions) provided by you to MSSB and the CP Manager, the CP Manager will generate an Investment Policy Statement and identify suitable Alternative Investments for your portfolio. The CP Manager will not be limited to the Alternatives Approved List and, therefore, may recommend Alternative Investments that have not received due diligence from MSSB.

You will enter into a Client Agreement with MSSB and a separate investment management agreement with the CP Manager. You may also sign separate fund documentation for each Alternative Investment. You will pay a separate fee to the manager of each Alternative Investment.

The CP Manager may recommend a change of Alternative Investments if, e.g., your investment objectives or market conditions change or if, for some other reason, another Alternative Investment would be more appropriate for you.

The CP program is non-discretionary and the decision to participate in CP and invest in any Alternative Investment recommended by the CP Manager is made by you and is your responsibility. MSSB will monitor the CP Manager and will notify you if it no longer recommends the CP Manager as an investment adviser to provide non-discretionary portfolio advisory services to clients of MSSB.

## **Alternative Investments Advisory-Discretionary Manager Services**

The DMS program offers qualified clients the discretionary investment management services of an MSSB-affiliated manager in a program where MSSB provides consulting and administrative services. MSSB does not provide investment recommendations in DMS.

DMS is designed to provide ultra-high net worth and institutional clients with a customized portfolio of alternative investments specific to their needs with respect to risk/reward, strategy allocation, geographic exposure, concentration, and leverage. Portfolios will be created and managed by an MSSB affiliate or a third party (the “DMS Manager”) on a fully discretionary basis (as described below under “Investment Process”). In other words, the DMS Manager, and not you, has the discretion to decide what Alternative Investments to buy and sell in your account. The DMS Manager will be solely responsible for designing, monitoring, and rebalancing your portfolio as necessary. You should discuss with your DMS Manager which investment strategy suits your investment goals. The DMS Manager will create your portfolio from a selection of hedge funds and may also include hedge funds purchased via secondary transactions, private equity funds and real estate funds. In DMS, MSSB does not due diligence the Alternative Investments in which you may invest. However, MSSB will perform due diligence on and periodically monitor the DMS Manager.

In DMS, you enter into one agreement with MSSB for consulting and administrative services and enter into a separate discretionary investment management agreement with the DMS Manager relating to due diligence, performance reporting, and the management of the assets by the DMS Manager. The DMS Manager will use client assets to purchase limited partnership interests in either a Delaware or Cayman limited partnership. The Delaware limited partnership will issue clients a single K-1. Clients will hold share classes in the applicable limited partnership interests that are mapped to the underlying investment funds in which the DMS Manager has chosen to invest each client's assets.

**Investment Process.** The DMS Manager manages your DMS account based on the investment guidelines that you and the DMS Manager agree to in your investment management agreement. The DMS Manager is primarily responsible for making and implementing investment management decisions for your account within the investment guidelines. The availability of investment strategies and securities and the applicability of investment limitations may vary among clients. You should consult with your DMS Manager for more information on the DMS Manager's approach to investing, and available investment strategies.

## **Alternative Investments Advisory-Hedge Fund Portfolio Advisory Program**

The HFOA program offers qualified clients consulting, administrative services and access to non-discretionary custom portfolio construction advice from MSSB (in such capacity, the “HFOA Manager”).

The HFOA Manager will recommend Alternative Investments from the Alternatives Approved List based on portfolios developed by an MSSB-affiliate and the HFOA Manager's assessment of your needs based on the investment objectives and requirements (including any restrictions) provided by you to your Financial Advisor and the HFOA Manager.

The HFOA Manager will monitor your portfolio and may recommend a change if, e.g., your investment objectives or market conditions change or if, for some other reason, the HFOA Manager believes that another Alternative Investment would be more appropriate for you. See also *Changes in Availability of Alternative Investments* in this Section 4.A. under *Alternative Investments Advisory Program*.

You will sign a client services agreement with the HFOA Manager and separate fund documentation for each Selected Investment Product. You will pay separate fees to the manager of each Selected Investment Product.

The HFOA program is non-discretionary and the decision to participate in HFOA and invest in any Alternative Investment is made by you and is your responsibility.

## **Other**

**Alternative Investments Performance Reporting Service.** MSSB offers performance reporting services, a non-discretionary, non-advisory service, to certain clients. MSSB offers clients the ability to receive periodic reports that provide historical performance reporting of Alternative Investments that were not recommended to them by MSSB, were not purchased through MSSB and that have not been due diligence by MSSB. MSSB also provides this service to clients for Alternative Investments that were on the Alternatives Approved List that clients decide to retain after MSSB ceased providing due diligence services on the Alternative Investments. The historical performance information provided by this service is based upon information provided, directly or indirectly, to MSSB by the client or the issuer of the Alternative Investment, or by its sponsor, investment manager or administrator (“Performance Reporting AI”). MSSB's ability to provide historical or other performance reporting on Alternative Investments is dependent upon its ability to obtain such information from each Performance Reporting AI. The performance reporting service enables you to receive from MSSB periodic reports containing your historical performance information as reported by the applicable Performance Reporting AI. You may also receive composite reports that show historical performance of Alternative Investments as reported by the Performance Reporting AI, along with historical or other performance information or other investments that are on the Alternative Investments Approved List. The performance information provided in a periodic performance report is based on information provided to MSSB by the Performance Reporting AI and is not independently verified by MSSB. MSSB shall not be liable for any misstatement or omission made by a Performance Reporting AI nor for any loss, liability, claim, damage or expense arising out of such misstatement or omission. The reporting service is not intended to constitute investment advice or a recommendation by MSSB of any Alternative



Investment and MSSB is not evaluating the appropriateness of the initial investment or the continued investment in the Alternative Investments reported on as a part of this service. In addition, the service does not constitute, create or impose a fee-based brokerage relationship, a fiduciary relationship or an investment advisory relationship under the Advisers Act with regard to the provision of the Alternative Investments covered under this service. If the Client is an employee benefit plan or is otherwise subject to ERISA, MSSB is not acting as a fiduciary (as defined in ERISA) with the respect to the provision of these reporting services as described herein). MSSB is not responsible for and will not provide tax reporting with respect to any Alternative Investment reported on under this service. MSSB does not maintain custody of Alternative Investments reported on under this service and therefore such investments are not included under MSSB's SIPC coverage. The fee charged to the client in this service does not include any fee or charge for other services in connection with the client's participation in any Alternative Investment.

In addition to the specific services described above, from time to time, Financial Advisors, with the approval of MSSB's management, may provide specialized investment advisory services on either a discretionary or non-discretionary basis to clients.

### **Account Opening**

To enroll in any program described in this Brochure, you (in consultation with your Financial Advisor) must enter into the respective program's client agreement(s) (the "Client Agreement") with MSSB. For CP, you will also enter into an investment management agreement with the CP Manager. For DMS, you will also enter into an investment management agreement with the DMS Manager. For HFPA, the Client Agreement will reflect the services provided by the HFPA Manager and may be in addition to a Client Agreement that you have with MSSB.

Effective April 20, 2015, MSSB will implement a new form of Single Advisory Contract (the "Single Advisory Contract") which will be used to open new Consulting Group accounts, including an AIA account. 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 AIA).

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

For AIA, the Client Agreement will be the MSSB Single Advisory Contract. MSSB has discontinued use of the former AIA client agreement for opening new accounts (but some existing AIA accounts may have been opened using the AIA

client agreement). With respect to AIA, the AIA client agreement and the Single Advisory Contract shall be collectively referred to as the Client Agreement.

The Single Advisory Contract will not be used for HFPA, CP or DMS.

### **Investment Restrictions**

Your ability to impose restrictions on your investments in the programs is limited. For example, you may restrict MSSB from buying specific securities or a category of securities (e.g., tobacco companies). If you restrict a category of securities, MSSB will determine 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 the holdings of certain alternative investments where they operate in accordance with the investment objectives and strategies described in their offering materials.

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.

In CP and DMS, any restrictions should be included in your investment guidelines. You should contact your DMS Manager to determine what types of restrictions you may place on your account.

### **Account Statements and Performance Reviews**

We will generally not maintain custody of your Alternative Investments. Alternative Investments will be custodied with such custodians as selected by the manager of the applicable Alternative Investment. Alternative Investments are not included under MSSB's SIPC coverage. However, we will maintain custody of cash, and will receive and credit to your account all interest, dividends and other distributions we receive on the Alternative Investments in your account and will include reports of your ownership of the Alternative Investments on your account statements.

In AIA, we make Quarterly Performance Reports available to you every quarter. These reviews have tabular reports and graphical displays showing how your account investments have performed, both on an absolute basis and on a relative basis compared to recognized indices (such as Standard & Poor's indices). You may access these reports through MSSB's online account services site. To enroll your account in the online account service site, go to <https://www.morganstanleyclientserv.com> and follow the step-by-step instructions. To access these reports at the online site, please select "Account Documents". If, however, you would like to receive these reports by mail, please call 1-888-454-3965.

In CP, MSSB will provide quarterly reports and the CP Manager will provide periodic reports to you describing the performance of the Selected Investment Products based on portfolio holdings

information received from managers of the Selected Investment Products or their agents.

In DMS, your account will be reflected on a monthly statement from MSSB. In addition, the DMS Manager will provide monthly valuations for the DMS account as well as the performance for the underlying accounts. You will receive a monthly fact card and quarterly commentary from the DMS Manager which is tailored to your account and the DMS Manager may further customize client statements if requested.

Performance information may be based on a preliminary estimate of an Alternative Investment's performance for the month. The final performance results may be higher or lower than the data reflected in the periodic report provided by MSSB or its affiliate. You are responsible for reviewing performance reports and promptly reporting any discrepancies to MSSB.

## **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. We and the managers do not guarantee performance, and a manager's past performance with respect to other accounts does not predict your account's future performance. You should consult with your Financial Advisor, CP Manager, DMS Manager, or HFP Manager regarding the specific risks associated with the investments in your account.

Neither MSSB nor its affiliates 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 Alternative Investments.*** Alternative Investments have different features and risks than other types of investment products. As further described in the offering documents of any particular Alternative Investment, an alternative investments can be highly illiquid, are speculative and not suitable for all investors. For example, alternative investments may place substantial limits on liquidity and the redemption rights of investors, including only permitting withdrawals on a limited periodic basis and with a significant period of notice and may impose early withdrawal fees. Alternative Investments are intended for experienced and sophisticated investors who are willing to bear the high economic risks of the investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include: loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; lack of liquidity, in that there may be no secondary market for the fund and none expected to develop; volatility of returns; restrictions on transferring interests in the Alternative Investment, including only permitting withdrawals on a limited periodic basis upon significant written notice and restricting withdrawals through "gates," "side-pockets," and other mechanisms; potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; absence of information regarding valuations and pricing; complex tax structures and delays in tax reporting; less regulation and higher fees than mutual funds; advisor risk and indemnities, "clawbacks" or other restrictions that may require the return of capital previously distributed to

you or the payment of additional capital. Alternative Investments may also have higher fees (including multiple layers of fees) compared to other types of investments and may charge an asset-based fee as well as incentive fees based on net profits which may create an incentive for a manager to make investments which are riskier or more speculative than those which might have been made in the absence of such an incentive. Alternative Investments are generally not limited in the markets in which they may invest, either by location or type, such as large capitalization, small capitalization or non-U.S. markets. Individual funds will have specific risks related to their investment programs that vary from fund to fund. For more details on these and other features and risks, please carefully read the documentation (including risk disclosures) relating to any Selected Investment Product, as well as your Client Agreement.

***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 Mutual Funds and ETFs that Pursue Complex or Alternative Investment Strategies or Returns.*** Although not available through the Programs, you should understand 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 like the Alternative Investments available through the Programs. 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 Alternative Investments pursuing similar investment objectives. They are also more likely to have relatively higher correlation with traditional market returns than privately offered alternative investments. Moreover, Alternative Investments 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 an Alternative Investment pursuing the same strategy.

Non-traditional investment options and strategies are often employed by a portfolio manager to further a fund's or ETF's 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 any Alternative Investment, see the offering materials for your Alternative Investment and, where available, the ADV Part 2 for the manager of the Alternative Investment.

For other risks relating to the particular strategy you hold in your DMS account, see your DMS Manager's ADV Part 2. You can ask your Financial Advisor for a copy.

## **Tax and Legal Considerations**

A Financial Advisor may agree with you to implement a client-developed investment strategy that you believe is sensitive to your particular tax situation. Neither we nor any of our affiliates provides tax or legal advice and, therefore, we and they are not be responsible for developing, evaluating or the efficacy of any such tax-sensitive strategy. You need to develop any such strategy in consultation with a qualified tax adviser. Certain tax-sensitive strategies can involve risks. Among others, tax-efficient management services involve an increased risk of loss because your account may not receive the benefit (e.g., realized profit, avoided loss) of securities transactions that would otherwise take place in accordance with the Financial Advisor's investment management decisions for the account. Replacing a manager may result in sales of securities and subject you to additional income tax obligations.

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 ADV Brochure, as MSSB and its affiliates do not provide tax or legal advice.

Investments in Alternative Investments entail different risks, including tax risks, than is the case for other types of investments. Investors in Alternative Investments hold "units" of the Alternative Investments (as opposed to a share of corporate stock) and are technically partners in the Alternative Investments. Holders of Alternative Investments may also be exposed to the risk that they will be required to repay amounts to the Alternative Investment that are wrongfully distributed to them. Many Alternative Investments choose 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 Alternative Investment, could result in an Alternative Investment being treated as a corporation for U.S. federal income tax purposes, which would result in such Alternative Investment being required to pay U.S. federal income tax on its taxable income. The classification of an Alternative Investment 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 Alternative Investment 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 Alternative Investment, please discuss with your tax advisor.

Investors in Alternative Investments will generally receive a Schedule K-1 for each Alternative Investment, 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 Alternative Investments may be required to file state income tax returns in states where the Alternative Investments operate. Since some Alternative Investments may not be provided until after the due date for the federal or state tax return, investors in Alternative Investments may need to obtain an extension for filing their federal or state tax returns. Please discuss with your tax advisor how an investment in Alternative Investments will affect your tax return.

Tax laws impacting Alternative Investments may change, and this could impact any tax benefits that may be available through investment in an Alternative Investment..

**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, 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 such retirement plans may generate taxable income referred to as "unrelated business taxable income" ("UBTI") that is subject to taxation at trust rates. Generally, passive types of income (when not financed with debt) such as dividends, interest, annuities, royalties, most rents from real property, and gains from the sale, exchange or other disposition of property (other than inventory or property held for sale in the ordinary course of a trade or business) do not generate UBTI. Active income associated with operating a trade or business, however, may constitute UBTI to an otherwise tax exempt investor such as a qualified retirement plan. 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), 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 plan's custodian or fiduciary (on behalf of the retirement plan) 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 plan'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 plan's UBTI, potentially limiting the amount of losses that can be used to offset the retirement plan's income from an unrelated trade or business each year. It should be noted that these rules are applied to publicly traded partnerships, on an entity-by-entity basis, meaning that the passive activity losses generated by one Alternative Investment generally can only be used to offset the passive activity income (including unrelated traded or business income) from the same Alternative Investment. The passive activity losses generated by one Alternative Investments generally cannot be used to offset income from another Alternative Investment (or any other source). The disallowed losses are suspended and carried forwarded to be used in future years to offset income generated by that same Alternative Investment. However, once the retirement plan disposes of its entire interest in the Alternative Investment to an unrelated party, the suspended losses can generally be used to offset any unrelated trade or business income generated inside the retirement plan (including recapture income generated on the sale of the Alternative Investments, as well as income generated by other Alternative Investments).

In calculating the tax, trust tax rates are applied to the retirement plan'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 plan's potential tax deductions. In order to file Form 990-T, the retirement plan 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 plan investors (and their fiduciaries) should consult their tax and legal advisors regarding the federal, state, and local income tax implications of their investments.

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

## **Fees**

For our services in the Programs, you pay MSSB an asset-based fee as described in your Client Agreement. In CP, DMS and

HFFA, you also pay a fee to the CP Manager, the DMS Manager or the HFFA Manager, respectively. The maximum total annual fee is 2.00%, except for AIA accounts opened on or after April 20, 2015, where the maximum annual fee will be 2.50%.

Alternative Investments also have fees that are paid to the manager of the Alternative Investment. We do not pay the manager of the Alternative Investment any part of the fee that you pay to us. In CP or DMS, at your election, we may pay, on your behalf, the fee owed by you to the CP Manager or the DMS Manager, respectively, for the advisory services they provide to you.

In the Programs, MSSB may allocate a portion of your fee to your Financial Advisor and, if applicable, to an unaffiliated or affiliated due diligence service provider or other service provider. In HFFA, the HFFA Manager will receive up to 0.40% for its portfolio advisory services.

***HedgePremier Program Participation Fees.*** If you make an investment through HedgePremier as a consulting client through AIA, you will also pay an affiliate of MSSB (the "Program Manager"), an ongoing program participation fee (the "Program Participation Fee"), which is distinct from the other fees described in this Brochure. As more fully described in the HedgePremier offering materials, the Program Participation Fee is intended to compensate the Program Manager for certain administrative, reporting and other services. The Program Manager will receive 0.25% annually for investments less than \$5,000,000, and 0.15% annually for investments in excess of \$5,000,000. The Program Participation Fee payable to the Program Manager is waived for certain retirement accounts. While you remain in AIA, your Financial Advisor will not receive any portion of the Program Participation 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 or Alternative Investments, 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 Alternative Investments are transferred or journaled into the account, you may 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.

You are required to provide notice to MSSB of any desired contributions or withdrawals (and, for contributions, you will contribute the corresponding funds in cash to the account) at least five (5) business days before any deadlines set for contributions or withdrawals in the offering materials for the Alternative Investment.

If you withdraw from or deposit to the account securities (or assets other than cash 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.

For example, a March 31 redemption processed on April 20 will now generate a withdrawal fee adjustment for the amount of the redemption, and you will be credited a reimbursement after the redemption is processed for that portion of the fee for the full second quarter.

No fee adjustment will be made 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. Notwithstanding the foregoing, if you are billed in arrears or pay us by annual fixed dollar amounts, the fee adjustment for deposits or withdrawals greater than \$5,000 does not apply to assets held in your account.

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

***Fee for Alternative Investments Performance Reporting.*** The fees for Alternative Investments Performance Reporting are negotiable and for purposes of calculating the fees for this service, the market value of the alternative investments shall be based on the then currently available market value, estimated or actual, as reported by the Performance Reporting AI and shall be payable in advance. MSSB does not independently verify such information. The fee shall not be charged on committed, but not yet funded, investments. The fee will be a blended fee, related for billing purposes with your advisory assets held at MSSB and subject to breakpoints. The fee on the first \$250,000 of assets is 0.25%. The fee on the next \$250,000 is 0.20%. The fee on the next \$500,000 of assets is 0.15%. The fee on the next \$1 million of assets is 0.10%. The fee on the next \$35 million of assets is 0.05%. The fee on assets in excess of \$5 million is 0.01%.

***Valuation of Account Assets.*** MSSB does not engage in an independent valuation of your account assets. MSSB will provide periodic account statements to you including the market value of the Alternative Investment based on information received from the manager of the Alternative Investment or another service provider. For CP and DMS, MSSB may receive valuation information from the CP Manager or the DMS Manager. MSSB relies on you to promptly review these account statements and promptly report any discrepancies to MSSB. In providing these account statements, or any other valuation information to you, (i) MSSB relies on the valuation information provided to MSSB by the manager of the Alternative Investments or another service provider, (ii) the valuation information is based on estimates which may be old as of the dates of the account statements, (iii) MSSB's final valuations may be higher or lower than the data reflected in the periodic account statements provided by MSSB and (iv) MSSB is under no obligation to provide notice of, or compensation to, you for any such difference in valuations.

***Fees are Negotiable.*** Fees for the programs described in this Brochure are negotiable based on a number of factors (including the type and size of the account and the range of services we provide).

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

***When Fees are Payable.*** The fee is payable as described in the Client Agreement and in this ADV 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 calendar quarter and is due the following business day. The Client Agreement authorizes MSSB to deduct fees when due from the assets contained in the account.

***Breakpoints.*** Fee rates in the programs 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 Plans.*** In accordance with Department of Labor regulations under Section 408(b)(2) of ERISA, MSSB is required to provide certain information regarding our services and compensation to assist fiduciaries and plan sponsors of those retirement plans that are subject to the requirements of ERISA in assessing the reasonableness of their plan's contracts or arrangements with us,

including the reasonableness of our compensation. This information (the services we provide as well as the fees) is provided to you at the outset of your relationship with us and is set forth in your advisory contract with us (including the Fee table, other exhibits and, as applicable, this document), and then at least annually to the extent that there are changes to any investment-related disclosures for services provided as a fiduciary under ERISA.

## B. Comparing Costs

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

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

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

## C. Additional Fees

If you open an account in one of the programs described in this Brochure, you will pay us an asset-based fee for our services. The program fees do not cover:

- the costs of investment management fees and other expenses charged by Alternative Investments (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)
- HedgePremier Program Participation Fees (as described above in Item 4.A. under "HedgePremier Program Participation Fees")
- servicing fees applicable upon termination of the Client Agreement
- 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).

## Alternative Investments in Advisory Programs

Investing in Alternative Investments is more expensive than certain other investment options offered in other advisory programs. In addition to our fee, you pay the fees and expenses of the Alternative Investments in which your account is invested. Such fees and expenses are charged directly to the pool of assets in which the Alternative Investments invest. These fees and expenses are an additional cost to you and are not included in the fee amount in your account statements. Each Alternative Investment describes their fees in its offering materials. Current and future expenses may differ from those stated in the offering materials.

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

In addition to the program fee paid by you, MSSB and its affiliates may receive payments from managers of Alternative Investments or their affiliates with respect to Alternative Investments held in the account. Thus, we have a conflict to recommend Alternative Investments over other securities where we do not receive such payments.

Certain Alternative Investments 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. Therefore, MSSB has a conflict to recommend MSSB-affiliated Alternative Investments.

## Expense Payments and Data Analytics

MSSB provides Managers of Alternative Investments and their affiliated companies with opportunities to sponsor meetings and conferences and grant them access to our branch offices and Financial Advisors for educational, marketing and other promotional efforts. Representatives from these managers of Alternative Investments 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 Alternative Investments 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. These managers independently decide what they will spend on these activities and may also invite our Financial Advisors to attend manager sponsored events. Such expenses may include, but are not limited to, meeting or conference facility rental fees and hotel, meal and travel charges. These managers or their affiliated service providers may make these payments directly to MSSB or pay vendors for these services on our behalf.

Certain managers of Alternative Investments (referred to as “AI Partners”) dedicate significant financial and staffing resources to these efforts and receive supplemental sales data analytics in relation to sales of Alternative Investments by certain of our Financial Advisors as well as additional opportunities to sponsor firm events and promote their Alternative Investments or advisory services to our Financial Advisors and clients. AI Partners commit \$300,000 per year for training and sales meeting expenses and pay a fee of \$50,000 per year for data analytics. These facts may present a conflict of interest for MSSB and our Financial Advisors to the extent they lead us to focus on Alternative Investments or advisory services offered by such managers, including our AI Partners, that commit significant financial and staffing resources to promotional and educational activities instead of on Alternative Investments and advisory services from managers that do not purchase sales data analytics or 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 Alternative Investments managed by or advisory services offered by our AI Partners or any other managers that provide significant sales and training support. AI Partners may present a certain number of Alternative Investments and advisory services to GIMA subject to a shorter timeline for GIMA to begin its review of such Alternative Investments or advisory services if there is a backlog at the time the Alternative Investment or advisory service is being considered. However, Alternative Investments and advisory services offered by AI Partners are subjected to the same GIMA due diligence process and standards as all other investment products and services and are not given preference in terms of approval by GIMA for offering in MSSB advisory programs.

MSSB selects the AI Partners based on a number of criteria. A list of our current AI Partners can be made available to you upon request.

Managers that participate in the AI Partners program may also participate in other programs at Morgan Stanley. For example, there are certain fund families that offer mutual funds and ETFs (referred to as “Global Partners” or “Emerging Partners”) and dedicate significant financial and staffing resources to sponsorship efforts and may receive supplemental sales information and additional opportunities to sponsor firm events and promote their mutual funds and ETFs 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. MSSB

selects the Global and Emerging Partners fund families based on a number of quantitative and qualitative criteria. Should you have any questions about the AI Partners Program or any other program, please contact your Financial Advisor or your local Branch Office Manager.

Representatives of managers of Alternative Investments 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.

### **Cash Sweeps**

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

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

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

Uninvested cash and allocations to cash including assets invested in Sweep Investments may be 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; (iv) transfer your sweep investment from one sweep product to another.

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

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

**Bank Deposit Program.** Through the Bank Deposit Program, Deposit Accounts are established for you at one or more of the following banks (individually and collectively, the “Sweep Banks”): (i) Morgan Stanley Bank, N.A. and/or (ii) Morgan Stanley Private Bank, National Association. The Sweep Banks are affiliated with MSSB. The Sweep Banks pay interest on the Deposit Accounts established under the BDP. Your deposits at the Sweep Banks will be insured by the Federal Deposit Insurance Corporation (“FDIC”) up to applicable limits, in accordance with FDIC rules, and subject to aggregation of all the accounts (including, without limitation, certificates of deposit) that you hold at the Sweep Banks in the same capacity. Bank

deposits held through the BDP are not covered by SIPC or excess coverage.

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

Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which will be provided to you upon your first investment in the Bank Deposit Program. You may also obtain the Bank Deposit Program Disclosure Statement as well as current interest rates applicable to your account, by contacting your Financial Advisor or through MSSB's web sites at [http://www.morganstanley.com/wealth-investmentstrategies/pdf/BDP\\_disclosure.pdf](http://www.morganstanley.com/wealth-investmentstrategies/pdf/BDP_disclosure.pdf) and <http://www.morganstanley.com/wealth-investmentstrategies/ratemonitor.html>. You acknowledge and understand that we may amend the list of Sweep Banks at any time with 30 days written notice to you. If you are participating in the Bank Deposit Program, please read the Bank Deposit Program Disclosure Statement carefully.

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

If BDP is your Sweep Investment, you should be aware that, the Sweep Banks will pay MSSB an annual account-based flat fee for the services performed by MSSB with respect to BDP. MSSB and the Sweep Banks will review such fee annually and, if applicable, mutually agree upon any changes to the fee to reflect any changes in costs incurred by MSSB. Your Financial Advisor will not receive a portion of these fees or credits. In addition, MSSB will not receive cash compensation or credits in connection with the BDP for assets in the Deposit Accounts for Retirement Plans or Coverdell Education Savings accounts. Also, the affiliated Sweep Banks have the opportunity to earn income on the BDP assets through lending activity, and that income is usually significantly greater than the fees MSSB earns on affiliated Money Market Funds. Thus, MSSB has a conflict of interest in selecting or recommending BDP as the Sweep Investment, rather than an eligible Money Market Fund.

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

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

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

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

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

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

We may offer other money market funds as a non-sweep investment choice. You may purchase shares in these money market funds by giving specific orders for each purchase to your Financial Advisor, or if applicable to the program in which you are invested, your Financial Advisor may purchase such shares for your Account under the Financial Advisor's discretionary authority. However, uninvested cash in your account will not be swept into these money market funds.

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

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

#### ***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.html](http://www.morganstanley.com/wealth/investmentstrategies/ratemonitor.html).

#### ***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 Plan, 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 Plans. 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 one of the programs described in this Brochure, a portion of the fees payable to us in connection with your account is allocated on an ongoing basis to your Financial Advisor. The amount allocated to your Financial Advisor in connection with accounts opened in programs described in this



Brochure may be more than if you participated in other MSSB investment advisory programs, or if you paid separately for investment advice, brokerage and other services. The compensation we pay Financial Advisors with respect to program accounts may be higher than the compensation we pay Financial Advisors with respect to transaction-based brokerage accounts. Your Financial Advisor may therefore have a financial incentive to recommend one of the programs in this Brochure instead of other MSSB programs or services.

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

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

AIA does not have minimum account size requirements. HFPA has a minimum account size of \$5,000,000. The CP and DMS programs have a minimum account size of \$25,000,000, subject to exception approval by the CP Manager or the DMS Manager, respectively.

Minimum account sizes apply for each Alternative Investment in a program and generally range from \$10,000 to \$5,000,000 or higher.

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.

To invest in alternative investment vehicles in the programs described, you must meet certain eligibility and investment minimums imposed by MSSB. You also may be subject to additional investor criteria, such as "accredited investor" under Regulation D of the Securities Act of 1933, as amended, and "qualified purchaser" under the Investment Company Act of 1940, as amended.

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

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

In AIA and HFPA, we offer a wide range of investment managers that we have selected and approved. Item 4.A above describes the basis on which we recommend Alternative Investments to particular clients. This Item 6.A describes more

generally how we approve, downgrade and terminate managers of Alternative Investment from AIA and HFPA. Managers may only participate in the AIA and HFPA programs if they are on MSSB's Alternatives Approved List (described below). Managers often offer more than one Alternative Investment and we may include only some of those Alternative Investments (or only certain share classes of such Alternative Investment) in our programs, may carry different Alternative Investments (or share classes) in different programs, and assign different statuses to different Alternative Investments.

As well as requiring Alternative Investments to be on the Alternatives Approved List or Approved List, we look at other factors in determining which Alternative Investments we offer in these programs, including program needs (such as whether we have a sufficient number of managers available in an asset class), and client demand.

In CP and DMS, the CP Manager and the DMS Manager, respectively, is responsible for the selection of managers for your portfolio as well as the review, approval, and monitoring of such Alternative Investments. Although MSSB has no involvement in the selection or review of the Alternative Investments, MSSB periodically conducts a formal review of the CP Manager and the DMS Manager (generally, every 12-18 months) to confirm the suitability of the DMS Manager as a discretionary investment manager to clients of MSSB.

### **Selection of Alternative Investments**

In AIA and HFPA, investment and business risk due diligence on Alternative Investments is provided by MSSB through (i) GIMA, (ii) an affiliate of MSSB that may provide due diligence and monitoring services, or (iii) an independent consulting firm or other organization retained by MSSB (each, a "Due Diligence Service Provider") that is also in the business of evaluating the capabilities of alternative investments. Any firm providing due diligence is expected to follow a methodology similar to that used by GIMA (described below), or a methodology approved by an MSSB alternative investment product review committee ("AIPRC"), in reviewing such alternative investments.

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

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

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

MSSB may remove Alternative Investments from the AIA and HFPA programs if GIMA or the Due Diligence Provider responsible for coverage of the Alternative Investment downgrades the Alternative Investment to “Terminate”. We may also terminate managers from these programs for other reasons (e.g., the manager has a low level of assets under management in the program, the manager has limited capacity for further investment, or the manager is not complying with our policies and procedures). Also, GIMA’s head of research can remove an alternative investment vehicle from the Alternatives Approved List without consulting the AIPRC, but the AIPRC will be notified of all such actions and have the right to call for an assessment of the decision. For more information on status changes and impacts on your account, see Item 4.A.

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

## **Watch Policy**

MSSB has a “Watch” policy for Alternative Investments on the Approved List. Watch status indicates that, in reviewing an Alternative Investment, GIMA or the Due Diligence Provider has identified specific areas related to the Alternative Investment, the manager of the Alternative Investment, or the markets in general that (i) merit further evaluation by GIMA or the Due Diligence Provider and (ii) may, but are not certain to,

result in the removal of the Alternative Investment from the “Approved List”. Putting an Alternative Investment on Watch does not signify an actual change in GIMA opinion nor is it a guarantee that GIMA will remove the Alternative Investment. The duration of a Watch status depends on how long GIMA needs to evaluate the reason for the status change, which may include, among things, an evaluation of the markets, the Alternative Investment, and the manager of the Alternative Investment.

***Other Relationships with Managers and Alternative Investments.*** Some CP Managers, DMS Managers and Alternative Investments or their respective affiliates on the Approved List may have business relationships with us or our affiliates. For example, an Alternative Investment 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 an Alternative Investment, a CP Manager, or a DMS Manager on the Approved List.

## **Calculating Portfolio Managers’ Performance**

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

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

If you invest in a fund of funds, your account documents may use the HFRI Fund of Funds Composite Index (“FoF Index”) as a benchmark. The FoF Index consists of over 800 domestic and offshore funds of hedge funds that have at least \$50 million under management or have been actively trading for at least 12 months. It is equally weighted on a fund by fund basis and fund assets are reported in USD on a net of fees basis. It is updated three times a month and the current month’s and the prior three months’ values are subject to change. MSSB is not obligated to notify you of any such changes. The FoF Index values are likely to be more up-to-date than the data for the Selected Investment Products for which it is the benchmark. You cannot invest in the FoF Index. For more information see <https://www.hedgefundresearch.com>.

## B. Conflicts of Interest

### Conflicts of Interest – Affiliate Acting as Portfolio Manager

In AIA and HFP, an affiliate of MSSB may act as the manager for one or more of your Alternative Investments. Where this occurs, we or our affiliates earn more money in your account from your investments in such investments than from other investment options. MSSB and the Financial Advisor are also likely to earn more compensation if you invest in a program described in this Brochure than if you open a brokerage account to buy individual securities. Also, in CP and DMS, the CP Manager or DMS Manager may be an affiliate of MSSB.

These relationships create a conflict of interest for us or our affiliates as there is a financial incentive to recommend the investments. We address this conflict of interest by disclosing it to you and by requiring Financial Advisors' supervisors to review your account at account-opening to ensure that it is suitable for you in light of matters such as your investment objectives and financial circumstances.

Item 6.A. describes the selection and review process for all managers of Alternative Investments that are available through these programs.

### Other Conflicts of Interest

MSSB has various other conflicts of interests relating to the programs described in this Brochure.

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

**MSSB as Solicitor.** MSSB enters into agreements with investment advisers that are DMS Managers pursuant to which MSSB will agree to introduce clients to the adviser to provide the same portfolio advisory services offered through DMS. Under these "solicitation" relationships, MSSB will receive compensation from the DMS Manager for the referral. Clients that are investing on an advisory basis through DMS may pay higher fees than if they had been made through a solicitation relationship with a DMS Manager.

**MSSB as Placement Agent.** MSSB also acts as a placement agent for certain Alternative Investments that are available through MSSB on a non-advisory basis. When an Alternative Investment is purchased on a placement basis, different terms and conditions, including different fee arrangements, may apply. For example, when a client invests through HedgePremier on a placement basis, they do not pay an ongoing advisory fee; however, they pay an upfront placement fee and the Program

Manager receives a higher Program Participation Fee which is shared with MSSB and its Financial Advisors. A client investing on an advisory basis may pay higher fees, in the aggregate, than if such investment had been made on a placement basis.

**Allocation Policy.** From time to time, MSSB may have limited access to opportunities to place clients in, or recommend client to, Alternative Investments, particularly in the case of certain private equity and real estate opportunities. Under these circumstances, when MSSB access is exceeded by client demand, MSSB will utilize a formal syndicate index in order to maintain an objective process when ultimately determining which Financial Advisors may offer or recommend the Alternative Investment to their clients and in what quantity they may offer or recommend the Alternative Investment (e.g. evaluating Financial Advisor's productivity in private equity or real estate, in Alternative Investments, or more broadly across MSSB). MSSB may change its policy to ensure that the process, as it relates to its advisory clients, remains fair, equitable and consistent with its fiduciary duty to such clients.

**Payments from Managers of Alternative Investments.** Managers of Alternative Investments offered in the programs described in this Brochure may agree to pay us the types of payments described above in Item 4.C. We have a conflict of interest in offering Alternative Investments because we or our affiliates earn more money in your account from your investments in Alternative Investments than from other investment options. However, in cases where we receive a portion of the management fee paid by you to a manager of an Alternative Investment and we charge a program fee under the programs in this Brochure, we credit such fee to your account. Also, we do not share this money with your Financial Advisor (i.e. the compensation we pay to your Financial Advisor is not affected by the payments we receive from the Alternative Investments). Therefore, your Financial Advisor does not have a resulting incentive to buy Alternative Investments in your account, or to buy certain Alternative Investments rather than other Alternative Investments in any of the programs in this Brochure. Also, please see Item 4.C above (*Additional Fees – Alternatives in Advisory Programs – Expense Payments and Data Analytics*), including the discussion of AI 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 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.

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

***Due Diligence Service Providers.*** MSSB retains various service providers to provide MSSB due diligence services on Alternative Investments that MSSB makes available to its clients. MSSB conducts an initial and ongoing review of each provider to affirm their ability to deliver due diligence services to MSSB. These providers receive compensation which may vary in amount from MSSB for these services. Morgan Stanley AIP GP LP (“AIP”), an affiliate of MSSB, is one of the service providers retained by MSSB. As a result of this arrangement, MSSB may pay AIP more than it pays unaffiliated service providers for similar services. This arrangement between MSSB and AIP may create conflicts because AIP may be incentivized to diligence one Alternative Investment over another or continue to recommend an Alternative Investment based on the sales of the manager of the Alternative Investment. MSSB mitigates these conflicts by subjecting AIP to similar due diligence standards as MSSB’s unaffiliated providers. In addition, most Alternative Investments that receive due diligence services are periodically revalidated through a MSSB product review committee. Also, MSSB clients do not pay the service fees directly. Instead, MSSB includes these fees as part of the costs associated with the programs.

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

***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 and for various clients, including issuers of securities that MSSB may recommend for purchase or sale by clients or are otherwise held in client accounts, and investment management firms in the programs described in this Brochure. MSSB, 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 or an affiliate performs investment banking or other services.

***Restrictions on Securities Transactions.*** There may be periods during which MSSB or investment managers are not permitted to initiate or recommend certain types of transactions in the securities of issuers for which MSSB or one of its affiliates is performing broker-dealer or investment banking services or 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 (“Morgan Stanley Parent”) securities, and in certain related securities. These restrictions may adversely impact your account performance.

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

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

***Research Reports.*** MS&Co. does business with companies covered by their respective research groups. Furthermore, MS&Co. and its affiliates and client accounts, may hold a trading position (long or short) in, and client accounts may hold, the securities of companies subject to such research or the securities of companies that are affiliates of such companies. 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, these 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 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 security 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.

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

- **Order Flow.** An agreement that, subject to best execution, MSSB will transmit a percentage of client orders for the purchase and sale of securities to MS&Co., Citi, Citigroup Global Markets Inc. ("CGM") and their 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 investment advisory clients.

**MSSB Affiliate in Underwriting Syndicate.** If an affiliate of MSSB is a member of the underwriting syndicate from which a

security is purchased, we or our affiliates may directly or indirectly benefit from such purchase.

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

**Investments in Sweep Investments or Alternative Investments.** The above-described Bank Deposit Program revenue and fees for money market funds 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 an Alternative Investment instead of an investment through a separate account. Please note that the Financial Advisor does not receive any of the Bank Deposit Program revenue or fees from money market funds described herein.

**Nonpublic Information.** In the course of investment banking or other activities, MSSB, the Alternative Investments, 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 which may 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.

## Item 7: Client Information Provided to Portfolio Managers

In AIA and HFPA, we may send various information about you and your account to the manager of your Selected Investment Product (including your name, whether or not your account is taxable, state/country of residence, your Investor Profile and restrictions). If you are an individual, we may provide further information about you and your financial situation (which may include your contact details, social security number, date of birth, citizenship, occupation, net worth and income).

In CP and DMS, we send various information about you and your account to the CP Manager or DMS Manager (including your name, whether or not your account is taxable, state/country of residence, your Investor Profile and restrictions). If you are an individual, we provide further information about you and your financial situation (which may include your contact details, social security number, date of birth, citizenship, occupation, net worth and income). We may provide updated information to the manager when needed for the manager to manage your account (e.g. changes in restrictions on the securities, or categories of securities, that your account can hold).

In CP and DMS, the CP Manager and DMS Manager, respectively, also requests information directly from you, and any updates it requires from time to time. Your Financial Advisor may help you forward information in response to requests.

## Item 8: Client Contact with Portfolio Managers

We do not restrict you from contacting and consulting with the managers of your Selected Investment Products.

In CP and DMS, you have a direct contractual relationship with the CP Manager or DMS Manager, and so may contact them to determine the consultation you wish to have with that manager.

## Item 9: Additional Information

### Disciplinary Information

This section contains information on certain legal and disciplinary events.

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

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

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

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

- In a LAWC dated August 1, 2005, the NASD found that MSDW failed to establish and maintain a supervisory system, including written procedures, reasonably designed to review and monitor MSDW’s fee-based brokerage business, between January 2001 and December 2003. Without admitting or denying the allegations, MSDW consented to the described sanctions and findings and was censured and fined \$1.5 million, and agreed to the payment of restitution to 3,549 customers in the total amount of approximately \$4.7 million, plus interest.
- The SEC alleged that MS&Co. violated the Exchange Act by inadvertently failing to timely produce emails to the SEC staff pursuant to subpoenas in the SEC’s investigation into MS&Co.’s practices in allocating shares of stock in IPOs and an investigation into conflicts of interest between MS&Co.’s research and investment banking practices. Without admitting or denying the allegations, MS&Co. consented to a final judgment on May 12, 2006 in which it was permanently restrained and enjoined from violating the Exchange Act. MS&Co. agreed to make payments aggregating \$15 million, which amount was reduced by \$5 million contemporaneously paid by MS&Co. to the NASD and the NYSE in related proceedings. MS&Co. also agreed to notify the SEC, the NASD and the NYSE that it has adopted and implemented policies and procedures reasonably designed to ensure compliance with the Exchange Act. MS&Co. also agreed to provide annual training to its employees responsible for preserving or producing electronic communications and agreed to retain an independent consultant to review and comment on the implementation and effectiveness of the policies, procedures and training.
- On June 27, 2006, the SEC announced the initiation and concurrent settlement of administrative cease and desist proceedings against MS&Co. and MSDW for failing to maintain and enforce adequate written policies and procedures to prevent the misuse of material nonpublic

information. The SEC found that from 1997 through 2006, MS&Co. and MSDW violated the Exchange Act and the Advisers Act by failing to (1) conduct any surveillance of a number of accounts and securities; (2) provide adequate guidance to MS&Co.'s and MSDW's personnel charged with conducting surveillance; and (3) have adequate controls in place with respect to certain aspects of "Watch List" maintenance. The SEC's findings covered different areas from the 1997 through 2006 time period. MS&Co. and MSDW were ordered to pay a civil money penalty of \$10 million and agreed to enhance their policies and procedures.

- On August 21, 2006, MS&Co. and MSDW entered into a LAWC relating various finds that, at various times between July 1999 and 2005, MS&Co. violated a number of NASD and SEC rules. The violations related to areas including trade reporting through the Nasdaq Market Center (formerly Automated Confirmation Transaction Service (ACT)), Trade Reporting and Compliance Engine (TRACE) and Order Audit Trail System (OATS); market making activities; trading practices; short sales; and large options positions reports. The NASD also found that, at various times during December 2002 and May 2005, MSDW violated NASD rules and Municipal Securities Rulemaking Board ("MSRB") rules related to areas including trade reporting through TRACE, short sales, and OATS. The NASD further found that, in certain cases, MS&Co. and MSDW violated NASD Rule 3010 because their supervisory systems did not provide supervision reasonably designed to achieve compliance with securities laws, regulations and/or rules.

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

- On May 9, 2007, the SEC issued an Order ("May 2007 Order") settling an administrative action with MS&Co. In this matter, the SEC found that MS&Co. violated its duty of best execution under the Exchange Act. In particular, the SEC found that, during the period of October 24, 2001 through December 8, 2004, MS&Co.'s proprietary market-making system failed to provide best execution to certain retail OTC orders. In December 2004, MS&Co. removed the computer code in the proprietary market-making system that caused the best execution violations. MS&Co. consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, to pay disgorgement of approximately \$5.9 million plus prejudgment interest on that amount, and to pay a civil penalty of \$1.5 million. MS&Co. also consented to retain an Independent Compliance Consultant to review its policies and procedures in connection with its market-making system's order handling procedures and its controls relating

to changes to those procedures, and to develop a better plan of distribution.

- On July 13, 2007, the NYSE issued a Hearing Board Decision in connection with the settlement of an enforcement proceeding brought in conjunction with the New Jersey Bureau of Securities against CGM. The decision held that CGM failed to (1) adequately supervise certain branch offices and Financial Advisors who engaged in deceptive mutual fund market timing on behalf of certain clients from January 2000 through September 2003 (in both proprietary and non-proprietary funds); (2) prevent the Financial Advisors from engaging in this conduct; and (3) make and keep adequate books and records. Without admitting or denying the findings, CGM agreed to (a) a censure; (b) establishing a \$35 million distribution fund for disgorgement payments; (c) a penalty of \$10 million (half to be paid to the NYSE and half to be paid to the distribution fund); (d) a penalty of \$5 million to be paid to the State of New Jersey; and (e) appointing a consultant to develop a plan to pay CGM's clients affected by the market timing.
- On September 27, 2007, MS&Co. entered into a LAWC with the Financial Industry Regulatory Authority ("FINRA"). FINRA found that, from October 2001 through March 2005, MSDW provided inaccurate information to arbitration claimants and regulators regarding the existence of pre-September 11, 2001 emails, failed to provide such emails in response to discovery requests and regulatory inquiries, failed adequately to preserve books and records, and failed to establish and maintain systems and written procedures reasonably designed to preserve required records and to ensure that it conducted adequate searches in response to regulatory inquiries and discovery requests. FINRA also found that MSDW failed to provide arbitration claimants with updates to a supervisory manual in discovery from late 1999 through the end of 2005. MS&Co. agreed, without admitting or denying these findings, to establish a \$9.5 million fund for the benefit of potentially affected arbitration claimants. In addition, MS&Co. was censured and agreed to pay a \$3 million regulatory fine and to retain an independent consultant to review its procedures for complying with discovery requirements in arbitration proceedings relating to its retail brokerage operations.
- On October 10, 2007, MS&Co. became the subject of an Order Instituting Administrative and Cease-And-Desist Proceedings ("October 2007 Order") by the SEC. The October 2007 Order found that, from 2000 until 2005, MS&Co. and MSDW failed to provide to their retail customers accurate and complete written trade confirmations for certain fixed income securities in violation of the Exchange Act and MSRB rules. In addition, MS&Co. was ordered to cease and desist from committing or causing any future violations, and was required to pay a \$7.5 million penalty and to retain an independent consultant to review MS&Co.'s applicable policies and procedures. MS&Co. consented to the issuance of the October 2007 Order without admitting or denying the SEC's findings.
- On December 18, 2007, MS&Co. became the subject of an Order Instituting Administrative Cease-and-Desist



Proceedings (“December 2007 Order”) by the SEC. The December 2007 Order found that, from January 2002 until August 2003, MSDW (1) failed to reasonably supervise four Financial Advisors, with a view to preventing and detecting their mutual fund market-timing activities and (2) violated the Investment Company Act of 1940 by allowing multiple mutual fund trades that were placed or amended after the close of trading to be priced at that day’s closing net asset value. The December 2007 Order also found that, from 2000 through 2003, MSDW violated the Exchange Act by not making and keeping records of customer orders placed after the market close and orders placed for certain hedge fund customers in variable annuity sub-accounts. Without admitting or denying the SEC’s findings, MS&Co. agreed to a censure, to cease and desist from future violations of the applicable provisions, to pay a penalty of approximately \$11.9 million, to disgorge profits related to the trading activity (including prejudgment interest) of approximately \$5.1 million and to retain an independent distribution consultant.

- In May 2005, MS&Co. and MSDW discovered that, from about January 1997 until May 2005, their order entry systems did not check whether certain secondary market securities transactions complied with state registration requirements known as Blue Sky laws. This resulted in the improper sale of securities that were not registered in 46 state and territorial jurisdictions. MS&Co. and MSDW conducted an internal investigation, repaired system errors, self-reported the problem to all affected states and the New York Stock Exchange, identified transactions which were executed in violation of the Blue Sky laws, and offered rescission to affected customers. MS&Co. settled the state regulatory issues in a multi-state settlement with the 46 affected state and territorial jurisdictions. Under the settlement, MS&Co. consented to a cease and desist order with, and agreed to pay a total civil monetary penalty of \$8.5 million to be divided among, each of the 46 state and territorial jurisdictions. The first order was issued by Alabama on March 19, 2008, and orders are expected to be issued by subsequent states over the coming months.
- On August 13, 2008, MS&Co. agreed on the general terms of a settlement with the NYAG and the Office of the Illinois Secretary of State, Securities Department (“Illinois”) (on behalf of a task force of the North American Securities Administrators Association (“NASAA”)) with respect to the sale of auction rate securities (“ARS”). MS&Co. agreed, among other things, to repurchase at par approximately \$4.5 billion of illiquid ARS held by certain clients of MS&Co. which were purchased prior to February 13, 2008. Additionally, MS&Co. agreed to pay a total fine of \$35 million. Final agreements were entered into with the NYAG on June 2, 2009 and with Illinois on September 17, 2009. The Illinois agreement serves as the template for agreements with other NASAA jurisdictions.
- On November 13, 2008, in connection with the settlement of a civil action arising out of an investigation by the SEC into CGM’s underwriting, marketing and sale of ARS, CGM, without admitting or denying the allegations of the SEC’s complaint, except as to those relating to personal and subject

matter jurisdiction, which were admitted, consented to the entry in the civil action of a Judgment As To Defendant Citigroup Global Markets Inc. (“November 2008 Judgment”). Thereafter, on December 11, 2008, the SEC filed its civil action in the federal district court for the Southern District of New York (“Court”). The November 2008 Judgment, which was entered on December 23, 2008 (i) permanently enjoined CGM from directly or indirectly violating section 15(c) of the Exchange Act; (ii) provides that, on later motion of the SEC, the Court is to determine whether it is appropriate to order that CGM pay a civil penalty pursuant to section 21(d)(3) of the Exchange Act, and if so, the amount of the civil penalty; and (iii) ordered that CGM’s Consent be incorporated into the November 2008 Judgment and that CGM comply with all of the undertakings and agreements in the Consent, which include an offer to buy back at par certain ARS from certain customers. The SEC’s complaint alleged that (1) CGM misled tens of thousands of its customers regarding the fundamental nature of and risks associated with ARS that CGM underwrote, marketed and sold; (2) through its financial advisers, sales personnel and marketing materials, CGM misrepresented to customers that ARS were safe, highly liquid investments comparable to money market instruments; (3) as a result, numerous CGM customers invested in ARS funds they needed to have available on a short-term basis; (4) in mid-February 2008, CGM decided to stop supporting the auctions; and (5) as a result of the failed auctions, tens of thousands of CGM customers held approximately \$45 billion of illiquid ARS, instead of the liquid short-term investments CGM had represented ARS to be. CGM reached substantially similar settlements with the NYAG and the Texas State Securities Board (“TSSB”), although those settlements were administrative in nature and neither involved the filing of a civil action in state court. The settlements with the NYAG and the TSSB differed somewhat from the settlement with the SEC in that the state settlements (a) made findings that CGM failed to preserve certain recordings of telephone calls involving the ARS trading desk; and (b) required CGM to refund certain underwriting fees to certain municipal issuers. In addition, as part of the settlement with New York, CGM paid a civil penalty of \$50 million. CGM also agreed in principle to pay to states other than New York with which it enters into formal settlements a total of \$50 million. CGM paid \$3.59 million of this \$50 million to Texas as part of the settlement with that state. CGM expects it will reach settlements with the remaining states.

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

of approximately \$2.4 million plus interest to 90 former clients of the Financial Advisors.

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

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

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

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

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

**Broker-Dealer, Commodity Pool Operator, or Commodity Trading Adviser Registration Status.** As well as being a registered investment adviser, MSSB is registered as a broker-dealer. MSSB has related persons that are commodity pool operators (Ceres Managed Futures LLC, Morgan Stanley AIP GP LP, Morgan Stanley Investment Management Inc., Morgan Stanley Cayman Ltd., Morgan Stanley AIP Cayman GP Ltd., Morgan Stanley Alternative Investment Partners LP, Morgan Stanley Hedge Premier GP, and Morgan Stanley GWM Feeder Strategies LLC) and commodity trading advisers (Ceres Managed Futures LLC, Morgan Stanley AIP GP LP, and Morgan Stanley Investment Management Inc.). For a full listing of affiliated investment advisers, please see the ADV Part I.

**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.

### **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 or alternative investment, MSSB and its affiliates earn more money than if you invest in an unaffiliated mutual fund or alternative investment. Generally, for ERISA or other retirement accounts, MSSB rebates or offsets fees so that MSSB complies with IRS and Department of Labor rules and regulations.

Morgan Stanley AIP GP LP (AIP), an affiliate of MSSB, provides due diligence services to MSSB on Alternative Investments and may also serve as a CP Manager or DMS Manager to clients in CP and DMS.

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

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

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

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

### **Code of Ethics**

The MSSB US Investment Advisory Code of Ethics (“Code of Ethics”) 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 of Ethics 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 of Ethics by the individuals, branches and departments that they supervise.

The Code of Ethics 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 of Ethics include:

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

the same securities as their clients which may affect the security’s price, which constitutes a conflict of interest. While Financial Advisors are required to execute transactions in a manner that is fair and equitable to their clients over time, client accounts may at times be indirectly negatively impacted when Financial Advisors also trade for their own accounts. We address this conflict by disclosing it to you. Please ask your Financial Advisor if you would like more information on the Financial Advisor’s practices in this respect.

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

### **Reviewing Accounts**

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

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

See Item 4.A above for a discussion of account statements, and Quarterly Performance Reports.

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

See “Payments from Managers of Alternative Investments” and “Payments from Managers” in Item 6.B above.

### **Financial Information**

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

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

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

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

**Sweep Vehicles in Retirement Accounts and CESAs**

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

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

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

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

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

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

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

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

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

**Interest Earned on Float**

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

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

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

Generally, with respect to such assets awaiting investment:

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

**MSSB as an ERISA fiduciary**

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

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

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

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

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

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

The fund expense information below is the most recent information available to us as of February 26, 2014, and is subject to change. Please refer to the funds' current prospectuses, statements of additional information and annual reports for more information.

<b>Fund</b>	<b>Advisory Fee</b>	<b>Distribution and Service Fees</b>	<b>Other Expenses</b>	<b>Total Annual Fund Operating Expenses</b>	<b>Total Annual Fund Operating Expenses After Fee Waivers and/or Expense Reimbursements</b>
Active Assets Money Trust	0.25%	0.10%	0.07%	0.42%	0.18%
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%