

# Form ADV Wrap Fee Program Brochure

## Morgan Stanley Smith Barney LLC

Consulting and Evaluation Services Program  
Investment Management Services Program  
Private Wealth Management Manager Assessment Program

**April 24, 2020**

2000 Westchester Avenue  
Purchase, NY 10577  
Tel: (914) 225-1000  
[www.morganstanley.com](http://www.morganstanley.com)

**This Wrap Fee Program Brochure provides information about the qualifications and business practices of Morgan Stanley Smith Barney LLC (“MSWM”). 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 MSWM 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, 2019. For more details on any particular matter, please see the item in this ADV Brochure referred to in the summary below.

### **Changes to the way Fees are Calculated:**

Effective on or about December 1, 2019, your Fees will be calculated as follows:

- Fees will generally be charged monthly in advance instead of quarterly.
- There will no longer be mid-period fee adjustments during any billing period for withdrawals or deposits.
- There will no longer be a minimum annual MSWM Fee for each of the programs described in this Brochure.

For additional information regarding these changes, please see Item 4.A, Fees.

## Item 3: Table of Contents

|                                                                                                      |    |
|------------------------------------------------------------------------------------------------------|----|
| Item 1: Cover Page .....                                                                             | 1  |
| Item 2: Material Changes .....                                                                       | 2  |
| Item 3: Table of Contents .....                                                                      | 3  |
| Item 4: Services, Fees and Compensation.....                                                         | 4  |
| A. General Description of Programs and Services .....                                                | 4  |
| Consulting and Evaluation Services Program.....                                                      | 4  |
| Investment Management Services Program.....                                                          | 5  |
| PWM Manager Assessment Program .....                                                                 | 5  |
| Account Opening .....                                                                                | 6  |
| Investment Restrictions.....                                                                         | 6  |
| Trading and Execution Services .....                                                                 | 6  |
| Trade Confirmations, Account Statements and Performance Reviews.....                                 | 6  |
| Risks .....                                                                                          | 7  |
| Tax and Legal Considerations.....                                                                    | 8  |
| Proxies and Related Materials.....                                                                   | 10 |
| Custody .....                                                                                        | 10 |
| Fees .....                                                                                           | 11 |
| Additional Information on Fees .....                                                                 | 11 |
| B. Comparing Costs .....                                                                             | 13 |
| C. Additional Fees .....                                                                             | 13 |
| Funds in Advisory Programs .....                                                                     | 13 |
| Cash Sweeps .....                                                                                    | 14 |
| D. Compensation to Financial Advisors .....                                                          | 15 |
| Item 5: Account Requirements and Types of Clients .....                                              | 15 |
| Item 6: Portfolio Manager Selection and Evaluation .....                                             | 16 |
| A. Selection and Review of Portfolio Managers for the Programs.....                                  | 16 |
| CES Program .....                                                                                    | 16 |
| PWM MAP .....                                                                                        | 17 |
| Other Relationships with Managers .....                                                              | 17 |
| B. Conflicts of Interest.....                                                                        | 17 |
| Item 7: Client Information Provided to Portfolio Managers .....                                      | 20 |
| Item 8: Client Contact with Portfolio Managers .....                                                 | 20 |
| Item 9: Additional Information .....                                                                 | 20 |
| Disciplinary Information.....                                                                        | 20 |
| Other Financial Industry Activities and Affiliations.....                                            | 21 |
| Code of Ethics.....                                                                                  | 22 |
| Reviewing Accounts .....                                                                             | 22 |
| Client Referrals and Other Compensation .....                                                        | 22 |
| Financial Information.....                                                                           | 22 |
| Exhibit: Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement ..... | 24 |

## Item 4: Services, Fees and Compensation

Morgan Stanley Smith Barney LLC (“Morgan Stanley Wealth Management”, “MSWM”, “we”, “us” or “our”) is a registered investment adviser and a registered broker-dealer. MSWM is one of the largest financial services firms in the United States with branch offices in all 50 states and the District of Columbia.

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

We reasonably expect to provide services as a “fiduciary” (as that term is defined in Section 3(21) (A) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”)), with respect to “Retirement Accounts.” For purposes of this Brochure (including the Exhibit), the term “Retirement Account” will be used to cover (i) “employee benefit plans” (as defined under Section 3(3) of ERISA), which include pension, defined contribution, profit-sharing and welfare plans sponsored by private employers, as well as similar arrangements sponsored by governmental or other public employers which arrangements are generally not subject to ERISA; (ii) individual retirement accounts “IRAs” (as described in Section 4975 of the Code); and (iii) Coverdell Educational Savings Accounts (“CESAs”).

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

### A. General Description of Programs and Services

This section describes the Consulting and Evaluation Services program, the Investment Management Services program and the Private Wealth Management Manager Assessment program.

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

securities, options (including uncovered options) and other security types.

Please review the ADV Brochure for the manager you select for additional details on that manager’s portfolio.

MSWM and its Financial Advisors may also provide other services in connection with these programs. Any such services will be specified in the investment advisory agreement between MSWM and you (see “Account Opening” in this Item 4.A below).

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

### Consulting and Evaluation Services Program

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

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

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

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

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

- i. MSWM may terminate an investment manager or a particular strategy of the manager for any reason.

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

If your manager or a strategy managed by your manager is terminated from the CES program (either by us or by the manager), we will notify you and ask you to select a new manager or strategy. Our notice may also identify an appropriate replacement manager or strategy selected by us. **If you do not select a new manager or strategy within the time frame prescribed in our notice and even if the notice recommended a new manager or strategy, your assets will be moved to a brokerage account at MSWM.**

If your account becomes a brokerage account you will be responsible for making all investment decisions for your account.

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

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

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

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

### **Investment Management Services Program**

The Investment Management Services ("IMS") program was created to accommodate clients who want to maintain a relationship with an investment manager of their choice that is not covered by MSWM's Global Investment Manager Analysis Group and, thus not included in the due diligence process that GIMA employs for investment managers and funds of certain other investment advisory programs offered by MSWM. For additional information on GIMA, see "Selection and Review of Portfolio Managers for the Programs" in Item 6 below.

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

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

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

**On or about April 27, 2020, the IMS program will begin offering select mutual funds for trading eligibility. These funds will be available for trading at the Investment manager's discretion. In the IMS Program, trading in A or C shares for mutual funds or funds that are inclusive of a 12B-1 fee will be prohibited.**

**A list of approved mutual funds will be made available to all IMS managers.**

### **PWM Manager Assessment Program**

The PWM Manager Assessment ("PWM MAP") program offers the portfolio management services of unaffiliated managers, selected and approved by MSWM, in a program that provides consulting, custody, brokerage and performance reporting. PWM MAP is only available to Morgan Stanley Private Wealth Management or Graystone Consulting ("Graystone") clients and certain International Wealth Management clients.

To participate in PWM MAP, you sign separate agreements with MSWM and each of your selected managers, and pay separate fees to MSWM and each manager. You delegate investment discretion directly to the managers, while MSWM provides consulting, custody, brokerage performance reporting and administrative services. Certain clients may also elect, subject to our approval, not to receive all the services available from MSWM in PWM MAP. You may open multiple accounts, each managed by one manager according to a specific investment style.

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

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

**Changes to Investment Managers.** If one of your managers is terminated from PWM MAP, you may choose to terminate your agreement with the manager and select a new manager for your account so that you continue to receive the services available in PWM MAP. If you choose to maintain your contract with the manager, the MSWM services described in this program Brochure will no longer apply.

You may change a manager for any reason by complying with MSWM's procedures for manager changes. Your Private Wealth Advisor may recommend a change of managers if, e.g., your investment objectives or market conditions change or if, for some other reason, another manager would be more appropriate for you.

### Account Opening

To enroll in the CES and IMS programs, you must enter into the MSWM Single Advisory Contract (the "Single Advisory Contract") to open accounts in CES and IMS. The Single Advisory Contract governs the terms of your existing and future investment advisory accounts and relationships with Morgan Stanley. MSWM has discontinued use of the CES and IMS client agreements for opening new accounts (but some existing CES and IMS accounts may have been opened using the CES and IMS client agreements). The CES and IMS client agreements and the Single Advisory Contract shall be collectively referred to as the "Account Agreement."

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

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

### Investment Restrictions

For the programs listed in this Brochure, you should contact your manager to determine what types of restrictions you may request for your account.

We will not have any obligation to manage your account in accordance with any investment guidelines, policy statements or other documents unless we specifically agree to do so, in writing.

### Trading and Execution Services

Upon instruction from the manager, MSWM will effect transactions for the purchase or sale of securities and other investments in a client's account for the programs described in this Brochure. You authorize the manager to effect securities transactions for the account through MSWM, subject to legal requirements of "best execution," your needs, and, if applicable, the requirements of ERISA and the rules and regulations thereunder.

Your manager has the authority to effect transactions through broker-dealers other than us when the manager reasonably

believes that such other broker-dealer may effect such transactions at a price, including any mark-ups, mark-downs and/or other fees and charges, that are more favorable to the account than would be the case if transacted through MSWM. In addition even if the price is not more favorable, for the selection of such broker-dealer, the manager may consider all relevant factors, including execution capabilities, speed, efficiency, confidentiality, familiarity with potential purchasers or sellers, or any other relevant matters. We refer to trades on which we are not the executing broker as "step out trades." If your manager trades with another firm, you may be assessed other trading related costs (mark-ups, mark-downs and/or other fees and charges) by the other broker-dealer. Those costs are in addition to your program fees and will be included in the net price of the security. Such costs will not be reflected as a separate charge on your trade confirmations or account statements.

There are certain managers (including, but not limited to, managers offering municipal, corporate and convertible fixed income strategies) that have historically directed most, if not all, their trades to outside broker-dealers. Since the fees paid to MSWM only cover transactions effected through us, transactions through any other broker-dealer would normally include an add-on cost of the charge or the dealer mark-up or mark-down and these additional trading costs may increase your overall costs. For information about costs incurred, please see "Additional Fees" in Item 4.C below for details, or contact your FA.

For information about costs incurred, please contact your Financial Advisor/Private Wealth Advisor. If the manager you have selected or are considering is not listed in the PDF posted in the below link, or if that manager has not provided Step-Out information, please contact your FA/PWA for more information. The information provided by the managers is summarized at this link:

[www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/otresponse.pdf](http://www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/otresponse.pdf).

Notwithstanding the above, for the programs described in this Brochure, the manager agrees to not initiate trades through other broker-dealers affiliated with MSWM that are identified in writing by MSWM.

**Your manager (and not MSWM) has discretion over broker-dealer selection and execution and is responsible for meeting its best execution obligations to you. Before selecting a manager for any program described in this Brochure, you should carefully review all material related to that manager, including any disclosure on whether the manager uses broker-dealers other than MSWM to effect any trades and any additional trading costs (brokerage commissions or other charges) associated with executing trades at such other broker-dealers.**

### Trade Confirmations, Account Statements and Performance Reviews

Unless you have appointed another custodian in a program where you may do so, MSWM is the custodian and provides you with written confirmation of securities transactions, and account statements at least quarterly. You may waive the receipt of trade

confirmations after the completion of each trade in favor of alternative methods of communication where available. Even if you have done so, we may deliver trade confirmations after the completion of each trade. You may also receive mutual fund prospectuses, where appropriate.

We will provide periodic reviews of your account. These reviews show how your account investments have performed, either on an absolute basis or on a relative basis compared to recognized indices (such as Standard & Poor's indices). You may access these reports through MSWM's online account services site ("Morgan Stanley Online"). To access these reports in Morgan Stanley Online, please go to:

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

## **Risks**

All trading in your account is at your risk. The value of the assets in your account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. We and the managers do not guarantee performance, and a manager's past performance with respect to other accounts does not predict your account's future performance.

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

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

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

## ***Risks Relating to Money Market Funds.***

An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency.

You could lose money in money market funds. Although many money market funds classified as government funds (i.e., money market funds that invest 99.5% of total assets in cash and/or securities backed by the U.S. government) and retail funds (i.e., money market funds open to natural person investors only) seek to maintain a stable \$1.00 per share, they cannot guarantee they

will do so. The price of other money market funds will fluctuate and when you sell shares they may be worth more or less than originally paid. Money market funds may impose a fee upon sale or temporarily suspend sales if liquidity falls below required minimums. During suspensions, shares would not be available for purchases, withdrawals, check writing or ATM debits.

Moreover, in some circumstances, money market funds may cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings may be liquidated and distributed to the fund's shareholders. This liquidation process can be prolonged in nature and last for months. During this 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 Options*** There are a number of risks inherent in options trading, particularly with uncovered options. The potential loss of investing or trading in options, in general, is substantial, and the potential loss of investing or trading in uncovered call options is unlimited.

An investor selling uncovered call options is in an extremely risky position, and may incur large losses if the value of the underlying instrument increases above the exercise price. As with selling uncovered calls, the risk of selling uncovered put options is substantial. The seller of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price.

Investing or trading in uncovered options is therefore appropriate only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered option writer's options position, the investor's broker may request significant additional margin payments. If an investor does not make such margin payments, the broker may liquidate stock, options or other positions in the investor's accounts, with little or no prior notice in accordance with the investor's margin agreement.

For combination writing, where the investor sells both a put and a call on the same underlying instrument, the potential risk is unlimited.

Options investing, like other forms of investing, involves tax considerations that can significantly affect the profit and loss of buying and selling options. Investors should consult with their own tax advisors.

Before investing or trading in options, an investor should read and understand the Morgan Stanley Options New Account Form and Client Agreement (including the "Special Statement for Uncovered Option Writers" contained in that Agreement, and a current copy of the "Characteristics and Risks of Standardized Options" Disclosure Document, which are both available from a Morgan Stanley Financial Advisor or Private Wealth Advisor).

***Risks Relating to Master Limited Partnerships.*** Master Limited Partnerships ("MLPs") are limited partnerships or

limited liability companies whose interests (limited partnership or limited liability company units) are generally traded on securities exchanges like shares of common stock. Investments in MLPs entail different risks, including tax risks, than is the case for other types of investments.

Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in such MLP interests are subject to the risks generally applicable to companies in these sectors (including commodity pricing risk, supply and demand risk, depletion risk and exploration risk). Depending on the ownership vehicle, MLP interests are subject to varying tax treatment. Please see “Tax and Legal Considerations” in this Item 4.A below and any mutual fund or ETF prospectus, for more information. You may obtain any mutual fund or ETF prospectus by asking your Financial Advisor.

***Risks Relating to Investment in a Concentrated Number of Securities or to Investment in Only One Industry Sector (or in Only a Few Sectors).*** When strategies invest in a concentrated number of securities, a decline in the value of these securities would cause your overall account value to decline to a greater degree than that of a less concentrated portfolio. Strategies that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuation than strategies that diversify among a broad range of sectors. Industry concentration is a particular risk for MLP strategies, as many MLPs are issued by companies engaged in the energy and natural resources business.

***Risks Relating to Mutual Funds and ETFs that Primarily Invest in Master Limited Partnerships.*** In addition to the risks outlined above relating to Master Limited Partnerships, mutual funds and ETFs that primarily invest in MLPs generally accrue deferred tax liability. The fund’s deferred tax liability (if any) is reflected each day in the fund’s net asset value. As a result, the fund’s total annual operating expenses may be significantly higher than those of funds that do not primarily invest in Master Limited Partnerships. Please see the fund prospectus for additional information.

***Risks Relating to Mutual Funds and ETFs that Pursue Complex or Alternative Investment Strategies or Returns.*** These mutual funds and ETFs utilize non-traditional or complex investment strategies and/or derivatives for both hedging and more speculative purposes, which can increase volatility and the risk of investment loss. Certain of these funds are sometimes referred to as “liquid alternatives.” These funds often present higher costs and expenses, with certain of these funds charging fees that fluctuate with their performance. Please refer to the mutual fund or ETF’s prospectus for additional information on expenses and descriptions of the specific non-traditional and complex strategies utilized by the fund.

While mutual funds and ETFs may at times utilize non-traditional investment options and strategies, they have different characteristics than unregistered privately offered alternative investments. Because of regulatory limitations, mutual funds and ETFs that seek alternative-like investment exposure must utilize a more limited spectrum of investments. As a result, investment returns and portfolio characteristics of alternative mutual funds and ETFs may materially vary from those of privately offered 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. Non-traditional investment options and strategies are often employed by a portfolio manager to further a mutual fund’s or ETFs investment objective and to help offset market risks. However, these features may be complex, making it more difficult to understand the mutual 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 mutual fund or ETF to increased volatility and unanticipated risks particularly when used in complex combinations and/or accompanied by the use of borrowing or “leverage.”

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

For other risks relating to the particular strategy you hold in your account, see your manager’s Firm Brochure. For the programs listed in this Brochure, please contact your manager to review any manager ADVs.

## **Tax and Legal Considerations**

***Tax Harvesting.*** For the programs described in this Brochure, certain managers may be able to accommodate tax harvesting for a client. Clients may elect for their manager to sell securities harvesting gains and losses for the account.

You acknowledge that the manager retains the sole discretion regarding investment selection and trade execution for the programs listed in this Brochure.

You agree that there is no guarantee that “harvesting” requests received late in a calendar year will be completed before year-end or that “harvesting” will achieve any particular tax result. Tax “harvesting” may adversely impact investment performance. You acknowledge that neither MSWM, manager nor any affiliate make any guarantee that tax “harvesting” will be successful or provide any tax advice, and that you will consult with your own tax advisor regarding tax “harvesting” or any other tax issues.

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

For the programs listed in this Brochure, clients should contact their manager directly.

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



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

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

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

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

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

a trade or business) do not generate UBTI. Active income associated with operating a trade or business, however, may constitute UBTI to an otherwise tax exempt investor such as a Retirement Account. In addition, UBTI may also be received as part of an investor’s allocable share of active income generated by a pass-through entity, such as partnerships (including limited partnerships and MLPs), certain trusts, subchapter S corporations, and limited liability companies that are treated as disregarded entities, partnerships, or subchapter S corporations for federal income tax purposes.

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

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

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

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

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

***Principal Trading and Related Fees.*** There may be instances when, after a determination by the manager that it is in the client's best interest and subject to the requirements of applicable law, we shall execute principal transactions on the client's behalf. If we execute principal transactions on the client's behalf, these may include a mark-up over our cost which is in addition to the fee. See "Additional Fees" in Item 4.C below.

## **Proxies and Related Materials**

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

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

Please note that MSWM does not accept proxy voting authority in the programs listed in this Brochure, or provide advice or take action with respect to legal proceedings (including bankruptcies) relating to the securities in your account, except to the extent required by law.

## **Custody**

***MSWM acts as custodian.*** Unless you instruct us otherwise for the programs listed in this Brochure, MSWM will maintain custody of all cash, securities and other assets in the account and the section titled "Cash Sweep" in Item 4.C below will apply to you. MSWM will liquidate any fractional share positions of equity securities, closed-end funds or ETFs created in your account. The provisions in your Account Agreement regarding MSWM converting shares of open-end mutual funds in a client's account to an advisory share class will apply to your account.

***MSWM does not act as custodian.*** For the programs listed in this Brochure, you have the option to retain a custodian other than MSWM. Your outside custodian ("Designated Custodian") will maintain custody of the cash, securities, and

other investments in your account and will receive and credit to your account all interest, dividends, and other distributions received on the assets in the account. Since your assets are not held in custody at MSWM, they will not be included under MSWM's Securities Investor Protection Corporation ("SIPC") coverage. The rights and authority of MSWM with respect to such assets, including as to transfers of assets held with the Custodian, will be limited to those set forth in the Account Agreement, regardless of any separate agreements or arrangements you may have or enter into with such Custodian. MSWM disclaims any broader rights that may be contained in your separate agreement with the Custodian.

Except as indicated below, all other terms of your Account Agreement will apply.

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

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

***Liquidations and share class conversions.*** MSWM will not liquidate any fractional share positions of equity securities, closed-end funds or ETFs created in your account.

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

For trades executed through MSWM, we will provide you with copies of individual confirmations of transactions. We may also provide additional periodic reports.

MSWM shall have no responsibility or liability with respect to transmittal or safekeeping of such cash, securities, or other asset of the account, or the acts or omissions of the Designated Custodian or others with respect thereto. You will direct the Designated Custodian to furnish to MSWM from time to time such reports concerning assets, receipts, and disbursements with respect to the account as MSWM shall reasonably request. You may designate a replacement custodian upon written notice to us.

MSWM does not assume any responsibility for the accuracy of any reports or other information furnished or made available by you, the Designated Custodian or any other person or entity

(including access to online systems). The Designated Custodian will be liable to you pursuant to the terms of the custodian agreement and any other agreement that relates to the Designated Custodian's services to you.

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

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

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

## Fees

In the programs described in this Brochure, you pay an asset-based fee to MSWM (the "MSWM Fee"), which covers MSWM investment advisory services, custody of securities, trade execution with or through MSWM, as well as compensation to any Financial Advisor. This is a wrap fee. However, for the programs listed in this Brochure, the manager fees are separate from and in addition to the MSWM Fee.

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

**CES and IMS Fees.** You pay MSWM and the manager separately for the services each provides in the CES or IMS program.

You may pay us for our services by:

- an asset-based fee (MSWM Fee) at a maximum annual fee rate of 2% for CES which became effective on or about

October 1, 2018, and a maximum annual fee rate of 2% for IMS, or

- directed brokerage (i.e., paying commission on a transaction-by-transaction basis). Our separate Firm Brochure about the CES and IMS programs, available from your Financial Advisor, describes the directed brokerage fee option.

The directed brokerage fee option was discontinued for all retirement accounts in the CES and IMS programs.

Where a CES manager uses a strategy that employs uncovered options, there will be a different fee arrangement between the client and MSWM. Alternatively, in some cases, CES clients may negotiate an annual fixed dollar amount, paid quarterly. Please contact your Financial Advisor for details.

**PWM MAP Fees.** You pay MSWM and the manager separately for the services each provides in PWM MAP. You pay us an asset-based fee for our services at a maximum annual fee rate of 2.0%, which became effective on or about October 1, 2018.

## Additional Information on Fees

The MSWM Fee shall be referred to as the "Fee." Each manager and strategy you hold in the programs described in this Brochure is held in a separate account, even if held in the same program.

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

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

The following fee calculation is applicable to you beginning on or about December 1, 2019, subject to the transition of your account's current billing cycle:

- No Fee adjustment will be made during any billing period for withdrawals or deposits. No Fee adjustment will be made during any billing period for appreciation or depreciation in the value of Account assets during that period.
- If the account is terminated by either party, you will be entitled to a prorated refund of any pre-paid MSWM Fee, based on the number of days remaining in the

billing month after the date upon which notice of termination is effective.

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

In valuing assets, we use information provided by recognized independent quotation and valuation services. We believe this information to be reliable but do not verify the accuracy of the information provided by these services. If any information provided by these services is unavailable or is believed to be unreliable, we will value assets in a manner we determine in good faith to reflect fair market value. In addition, for certain securities, including collateralized loan obligations, we may rely upon our affiliate, Morgan Stanley & Co. LLC ("MS&Co") to provide a valuation.

**Fees are Negotiable.** Fees for the programs described in this Brochure are negotiable based on factors such as the type and size of the account and the range of services we provide.

The fee for your account may be (i) higher or lower than the fees that we would charge the account if you had purchased the services covered by the fees separately; (ii) 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 (iii) higher or lower than the cost of similar services offered through other financial firms.

**When Fees are Payable.** The Fee is payable as described in the Account Agreement and in this ADV brochure.

The following fee calculation is applicable to you beginning on or about December 1, 2019, subject to the transition of your account's current billing cycle:

- Generally, the initial Fee is due in full on the date you open your account at MSWM and is based on the market value of assets in the account on or about that date. The initial Fee payment generally covers the period from the opening date through (at your or your Financial Advisor's election) the last business day of the applicable billing period and is prorated accordingly. Thereafter, the Fee is paid monthly in advance based on the account's market value on the last business day of the previous billing month and is due promptly.

You may terminate participation in the programs described in this Brochure at any time by giving oral or written notice to

MSWM. If participation in any of the programs described in this Brochure is terminated, any advisory fees paid in advance will be refunded on a pro-rata basis. After deducting the Fee from the assets in the account, MSWM will retain the portion thereof constituting the MSWM Fee and pay the remaining portion of the Fee to the managers, to cover their respective fees.

**Breakpoints.** Fees may be a (i) fixed rate applying to all assets in your account or (ii) 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, any discounts 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 our policies and procedures. Even where accounts are eligible to be related, they will only be related if this is specifically agreed between you and your Financial Advisor.

**Changes to Fees.** You agree and acknowledge that MSWM reserves the right to change the fee that you have agreed to with your Financial Advisor upon notice to you.

**ERISA Fee Disclosure for Qualified Retirement Accounts.** In accordance with Department of Labor regulations under Section 408(b)(2) of ERISA, MSWM is required to provide certain information regarding our services and compensation to assist fiduciaries and plan sponsors of those Retirement Account that are subject to the requirements of ERISA in assessing the reasonableness of their plan's contracts or arrangements with us, including the reasonableness of our compensation. This information (the services we provide as well as the fees) is provided to you at the outset of your relationship with us and is set forth in this Brochure and in the Account Agreement with us (including the fee table and other exhibits), and then at least annually to the extent that there are changes to any investment-related disclosures for services provided as a fiduciary under ERISA.

**Other.** A portion of the MSWM Fee will be paid to your Financial Advisor. See "Compensation to Financial Advisors" in Item 4.D below for more information.

## B. Comparing Costs

Program fees vary across different programs. You may be able to obtain similar services separately for a lower fee from MSWM 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.

If you change your brokerage account to a fee-based advisory account, to the extent your brokerage account held class C mutual fund shares for five years or longer, these shares would likely have converted to load-waived (lower cost) Class A shares in the near future, thereby significantly reducing the ongoing internal mutual fund expenses you would have paid to hold them in your brokerage account. By changing your account from a brokerage account into a fee-based advisory account, your mutual fund shares will convert to the advisory share class (if available), which, in general will further lower overall costs. However, in exchange for advisory services you will receive, you will pay an additional asset-based fee which you would not pay in a brokerages account.

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 MSWM Fee for our services including, where applicable, custody of securities and trade execution through MSWM. The program fees do not cover:

- The costs of investment management fees and other expenses charged by funds (see below for more details);
- “Mark-ups,” “mark-downs,” and dealer spreads that (A) we or our affiliates may receive when acting as principal in certain transactions where permitted by law or (B) other broker-dealers may receive when acting as principal in certain transactions effected through us and/or our affiliates acting as agent, which is typically the case for dealer market transactions (e.g., fixed income and over-the-counter equity);
- Fees or other charges that you may incur in instances where a transaction is effected through a third party and not through us or our affiliates. Such fees or other charges will be included in the price of the security and not reflected as a separate charge on your trade confirmations or account statements
- MSWM account establishment or maintenance fees for IRAs and Versatile Investment Plans (“VIP”), which are described in the respective IRA and VIP account and fee documentation (which may change from time to time);
- Account closing/transfer costs;

- Processing fees or certain other costs or charges that may be imposed by third parties (including, among other things, odd-lot differentials, transfer taxes, foreign custody fees, exchange fees, supplemental transaction fees, regulatory fees and other fees or taxes that may be imposed pursuant to law);
- Any fee which a trust company affiliated with MSWM charges for its services (if applicable) as custodian and trustee for the assets in the program described in this Brochure, pursuant to a separate agreement between you and the trust company; or
- Interest charged to the account should the account have a trade-related debit balance.

## Funds in Advisory Programs

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

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

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

***Expense Payments and Fees for Data Analytics.*** MSWM receives expense payments and fees for data analytics, recordkeeping and related services. MSWM provides Fund families with opportunities to sponsor meetings and conferences and grants them access to our branch offices and Financial Advisors for educational, marketing and other promotional efforts. In this connection, Fund representatives may work closely with our branch offices and Financial Advisors to develop business strategies and support promotional events for clients, prospective clients and educational activities. Some Fund families or their affiliates reimburse MSWM for certain expenses incurred in connection with these promotional efforts as well as training programs. Fund families independently decide if and what they will spend on these activities, with some Fund families agreeing to make annual dollar amount expense reimbursement commitments of up to \$600,000, although actual reimbursements may be higher. In addition, some Fund families provide support of up to \$125,000 per year for the development and maintenance of our internal Financial Advisor training and education e-learning platform. Fund families also invite our Financial Advisors to attend Fund family-sponsored

events. Expense payments may include meeting or conference facility rental fees and hotel, meal and travel charges.

Fund family representatives are allowed to occasionally give nominal gifts to Financial Advisors, and to occasionally entertain Financial Advisors (subject to an aggregate entertainment limit of \$1,000 per employee per Fund family per year). MSWM'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.

MSWM also provides Fund families with the opportunity to purchase data analytics regarding Fund sales. The amount of the fee depends on the level of data. The maximum fee for either a mutual fund or an ETF data analytics package is \$600,000 per year. We generally charge sponsors of passively-managed ETFs a separate transactional data fee ranging up to \$550,000 per year for those sponsors with more than one hundred passively-managed ETFs on our platform. Additional fees apply for those Fund families that elect to purchase supplemental data analytics regarding other financial product sales at MSWM.

### ***Conflicts of Interest regarding the Above-Described Fees and Payments***

Please note that the above-described fees and payments are specific to Funds and similar fees and payments are not assessed on other investments that are available in our advisory programs. This fact presents a conflict of interest for Morgan Stanley and our Financial Advisors to promote and recommend those Funds that make these payments in advisory program accounts rather than other eligible investments that do not make similar payments. This in turn could lead our Financial Advisors and Branch Managers to focus on those Fund families that provide significant sales expense payments and/or purchase data analytics. In order to mitigate these conflicts, Financial Advisors and their Branch Managers do not receive additional compensation as a result of the data analytics payments received by Morgan Stanley.

### ***Affiliated Funds***

To the extent that affiliated Funds are offered to and purchased by Retirement Accounts, the advisory fee on any such account will be reduced, or offset, by the amount of the fund management fee, shareholder servicing fee and distribution fee we, or our affiliates, may receive in connection with such Retirement Account's investment in such affiliated managed fund.

***Mutual Fund Share Classes.*** Mutual funds typically offer different ways to buy fund shares. Some mutual funds offer only one share class while most funds offer multiple share classes. Each share class represents an investment in the same mutual fund portfolio, but assesses different fees and expenses. Many mutual funds have developed specialized share classes designed for various advisory programs ("Advisory Share Classes"). In general, Advisory Share Classes are not subject to either sales loads or ongoing marketing, distribution and/or service fees (often referred to as "12b-1 fees"), although some may assess fees for record keeping and related services. MSWM typically

utilizes Advisory Share Classes that assess fees for record keeping and related services. If you wish to purchase other types of Advisory Share Classes, which may carry lower overall costs, you will need to do so directly with the mutual fund or through an account at another financial intermediary.

Please note, although we may offer non-Advisory Share Classes of mutual funds (i.e., those that are subject to 12b-1 fees) if, for example, a fund does not offer an Advisory Share Class that is equivalent to those offered here, MSWM will rebate to clients any such 12b-1 fees that we receive. Once we make an Advisory Share Class available for a particular mutual fund, clients can only purchase the Advisory Share Class of that fund.

If you hold non-Advisory Share Classes of mutual funds in your advisory account or seek to transfer non-Advisory Share Classes of mutual funds into your advisory account, MSWM (without notice to you) will convert those shares to Advisory Share Classes to the extent they are available. This will typically result in your shares being converted into a share class that has a lower expense ratio, although exceptions are possible.

On termination of your advisory account for any reason, or the transfer of mutual fund shares out of your advisory account, we will convert any Advisory Share Classes of funds into a share class that is available in non-advisory accounts or we may redeem these fund shares. Non-Advisory Share Classes generally have higher operating expenses than the corresponding Advisory Share Class, which will increase the cost of investing and negatively impact investment performance.

For more information, please refer to the documents "Mutual Fund Features, Share Classes and Compensation," at [https://www.morganstanley.com/content/dam/msdotcom/en/assets/pdfs/wealth-management-disclosures/mf\\_share\\_classes.pdf](https://www.morganstanley.com/content/dam/msdotcom/en/assets/pdfs/wealth-management-disclosures/mf_share_classes.pdf), and "ETF Revenue Sharing, Expense Payments and Data Analytics Fees," at <http://aemauth-ms.webfarm.ms.com/auth/content/msdotcom/en/wealth-disclosures/disclosures.html#22>, which are also available from your Financial Advisor on request.

### ***Cash Sweeps***

Generally, some portion of your account will be held in cash. If MSWM acts as custodian for your account, it will effect "sweep" transactions of free credit balances in your account into interest-bearing deposit accounts ("Deposit Accounts") established under the Bank Deposit Program ("BDP"). For most clients BDP will be the only available cash sweep investment. Generally, the rate you will earn on BDP will be lower than the rate on other cash alternatives. In limited circumstances, such as clients ineligible for BDP or where MSWM otherwise elects, MSWM may sweep some or all of your cash into money market mutual funds (each, a Money Market Fund"). These Money Market Funds are managed by Morgan Stanley Investment Management Inc. or another MSWM affiliate.

It is important to note that free credit balances and allocations to cash including assets invested in sweep investments are included in your account's fee calculation hereunder.

You acknowledge and agree that if you are eligible, the BDP will be your designated sweep investment. You further acknowledge and agree that the rate of return on the BDP may be higher or lower than the rate of return available on other available cash alternatives. MSWM is not responsible if the BDP

has a lower rate of return than other available cash alternatives or causes any tax or other consequences.

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

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

For eligibility criteria and more information on cash sweeps in general, please refer to the Bank Deposit Program Disclosure Statement which is available at: [http://www.morganstanley.com/wealth-investmentstrategies/pdf/BDP\\_disclosure.pdf](http://www.morganstanley.com/wealth-investmentstrategies/pdf/BDP_disclosure.pdf)

#### ***Conflicts of Interest Regarding Sweep Investments.***

If BDP is your sweep investment, you should be aware that the Sweep Banks, which are affiliates of MSWM, will pay MSWM an annual account-based flat fee for the services performed by MSWM with respect to BDP. MSWM 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 MSWM. Your Financial Advisor will not receive a portion of these fees or credits. In addition, MSWM will not receive cash compensation or credits in connection with the BDP for assets in the Deposit Accounts for Retirement Accounts. Also, the affiliated Sweep Banks have the opportunity to earn income on the BDP assets through lending activity, and that income is usually significantly greater than the fees MSWM earns on affiliated Money Market Funds. Thus, MSWM has a conflict of interest in selecting or recommending BDP as the default Sweep Investment, rather than an eligible Money Market Fund. Further, MSWM’s affiliate, Morgan Stanley Investment Management, serves as the investment advisor to the available sweep Money Market Funds.

In addition, MSWM, 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 which may be available to you as a sweep investment.

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 MSWM affiliate) will receive compensation for managing the Money Market Fund. We receive compensation from such Money Market Funds based on the amount of fund assets held by our clients in brokerage accounts of up to 0.25% per year (\$25 per \$10,000). Under certain circumstances, a portion of such compensation is paid to Financial Advisors based on Morgan Stanley’s standard compensation formulas. We either rebate to clients or do not receive compensation on sweep Money Market Fund positions held in our fee-based advisory account programs. You understand that unless you are a Retirement Account, the fee will not be reduced by the amount of the Money Market Fund’s applicable fees. For additional information about the Money Market Fund and applicable fees, you should refer to each Money Market Fund’s prospectus.

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

If you invest in one of the programs described in this Brochure, we allocate to your Financial Advisor, on an ongoing basis, part of the fees payable to us in connection with your account. The Financial Advisor may receive different compensation depending on which program you invest in, the asset class within a program that you select (e.g., equity vs. fixed income), and the rate and amount of your fee. The amount we allocate to your Financial Advisor in connection with accounts opened in programs described in this Brochure may be more than if you participate in other MSWM investment advisory programs, or if you pay separately for investment advice, brokerage and other services. The rate of compensation we pay Financial Advisors with respect to program account fees may be higher than the rate we pay Financial Advisors on trades executed in transaction-based brokerage accounts. Your Financial Advisor may therefore have a financial incentive to recommend one of the programs in this Brochure (or asset classes within a program) instead of other MSWM 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**

#### ***Account Minimums.***

For the programs listed in this Brochure, minimum account sizes are set by each manager and generally range from \$50,000 to \$5 million or higher.

All new CES accounts with fixed income strategies will have at least a \$1 million minimum account size.



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

## Item 6: Portfolio Manager Selection and Evaluation

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

#### CES Program

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

In the CES program, we offer a wide range of investment managers and strategies that we have selected and approved. Section Item 4.A above describes the basis on which we recommend particular managers to particular clients. This Item 6.A describes more generally how we select and terminate managers and strategies from the CES program. If managers have more than one strategy, we may include only some of those strategies in the programs described in this Brochure, may carry different strategies in different programs, and assign different statuses to different strategies.

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

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

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

We automatically terminate managers in the CES program if GIMA downgrades them to "Not Approved." We may terminate managers from these programs for other reasons (i.e., the manager has a low level of assets under management in the program, the manager has limited capacity for further

investment, or the manager is not complying with our policies and procedures).

**Focus List.** To be considered for the Focus List, a manager provides GIMA with relevant documentation on the strategy being evaluated, which may include a Request for Information (RFI), sample portfolios, asset allocation histories, its Form ADV, past performance information and marketing literature. Additional factors for consideration may include personnel depth, turnover and experience; investment process; business and organizational characteristics; and investment performance. GIMA personnel may also interview the manager and its key personnel, and examine its operations. Following this review process, managers are placed on the Focus List if they meet the required standards for Focus List status.

GIMA periodically reviews managers on the Focus List. GIMA considers a broad range of factors (including investment performance, staffing, operational issues and financial condition). Among other things, GIMA personnel may interview each manager periodically to discuss these matters. GIMA may also review the collective performance of a composite of the MSWM accounts managed by a manager and compare this performance to overall performance data provided by the manager, and then investigate any material deviations.

**Approved List.** Managers provide GIMA with relevant documentation on the strategy being evaluated, which may include a Request for Information (RFI), sample portfolios, asset allocation histories, its Form ADV, past performance information and marketing literature. Additional factors for consideration may include personnel depth, turnover and experience; investment process; business and organizational characteristics; and investment performance. GIMA personnel may also interview the manager or Fund and its key personnel, typically via conference call.

Based on the above, GIMA then determines whether the manager meets the standards for Approved List status.

GIMA continuously evaluates managers on the Approved List and Focus List.

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

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

In some circumstances, you may be able to retain terminated managers in another advisory program or in a brokerage account subject to the regular terms and conditions applying to that



program or account. Ask your Financial Advisor about these options.

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

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

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

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

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

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

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

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

## **IMS Program**

Mutual funds available to be invested in the IMS program are evaluated by GIMA and included on either the Focus or Approved List. In the event GIMA downgrades any mutual fund offered in the IMS program, it will be removed from the eligible universe available to the managers if there are no holders of that downgraded fund. If there are active holders, MSWM will inform the manager that the mutual fund was downgraded. The manager has discretion to remain invested in the mutual fund or to invest in another mutual fund available on either the Focus list or Approved list. This decision will be made at the sole discretion of the manager.

### **PWM MAP; Graystone MAP**

Managers offered in Graystone MAP are reviewed by Graystone and approved by GIMA. Graystone is an MSWM business unit providing a wide range of investment consulting services to institutional and high net worth individual clients.)

Graystone performs qualitative and quantitative due diligence on prospective managers to identify recommended candidates for submission to GIMA, which reviews the manager and, approves the manager.

Once a manager has been approved by GIMA for Graystone MAP, it is available for PWM MAP, Graystone and certain other clients.

The reviewing team generally conducts periodic follow-up due diligence on approved managers (including follow-up interviews with the manager).

## **Other Relationships with Managers**

Some managers approved for use in programs in this Brochure may have business relationships with us or our affiliates. For example, a manager may use MS&Co. or an affiliate as its broker or may be an investment banking client of MS&Co. or an affiliate. GIMA does not consider the existence or lack of a business relationship in determining whether to approve or maintain a manager.

## **B. Conflicts of Interest**

In the programs described in this Brochure, no affiliates, related persons or supervised persons of MSWM act as portfolio manager. However, MSWM has various conflicts of interest, described below.

***Advisory vs. Brokerage Accounts.*** MSWM and your Financial Advisor may 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 would not receive all the benefits of the programs described in the Brochure). Financial Advisors and MSWM 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 appropriate for you in light of matters such as your investment objectives and financial circumstances.

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

Managers are allowed to occasionally give nominal gifts to Financial Advisors, and to occasionally entertain Financial Advisors, subject to a limit of \$1,000 per employee per year. MSWM'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 Managers" section do not relate to any particular transactions or investment made by MSWM clients with managers. Fund managers or subadvisors participating in programs described in this Brochure are not required to make any of these types of payments. The payments described in this section comply with FINRA rules relating to such activities. Please see the discussion under "Funds in Advisory Programs" in Item 4.C for more information.

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

***Trade Allocations.*** Your manager may aggregate the securities to buy or sell for more than one client to obtain favorable execution to the extent permitted by law. The manager is then responsible for allocating the trade in a manner that is equitable and consistent with its fiduciary duty to its clients (which could include, e.g., pro rata allocation, random allocation or rotation allocation). For block trade orders executed by MSWM, the price to each client is the average price for the aggregate order.

***Services Provided to Other Clients.*** MSWM and its affiliates and 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 may be recommended for purchase or sale by clients or are otherwise held in client accounts, and managers in the programs described in this Brochure. MSWM and its affiliates and managers and their affiliates receive compensation and fees in connection with these services. MSWM 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 MSWM and its affiliates, and managers, and their affiliates perform investment banking or other services.

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

MSWM, 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 their proprietary or client accounts. These analyses, evaluations and purchase and sale activities are proprietary and confidential, and MSWM will not disclose them to clients. MSWM may not be able to act, in respect of clients' account, on any such information, analyses or evaluations.

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

***Options Flow Preferencing.*** When MSWM processes an options order for your account, the order may be routed to options exchanges with an indication that our affiliate Morgan Stanley & Co. LLC ("MS&Co.") has a "preference" on the options order. A "preference" gives MS&Co. the ability to begin an auction among market makers in order to receive bids or offers for a transaction, however such "preference" will only result in an order executed with MS&Co. if its price is equal to or lower than the best price quoted on the relevant exchange. By "preferencing" itself, MS&Co. may generate larger trading volumes than if it were not "preferenced", and that may result in MS&Co. receiving certain benefits. Both MSWM and MS&Co. continue to have an obligation to obtain best execution terms for client transactions under prevailing circumstances, and consistent with applicable law.

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

***Certain Trading Systems.*** MSWM 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 MSWM or its affiliates may have a non-controlling direct or indirect ownership interest, or right to appoint a board member or observer. If MSWM directly or indirectly effects client trades or transactions through Trading Systems in which MSWM or its affiliates have an ownership interest, MSWM or its affiliates may receive an indirect economic benefit based on their ownership interest. In addition, subject at all times to its obligations to obtain best execution for its customers’ orders, it is contemplated that MSWM will route certain customer order flow to its affiliates. Currently, MSWM and/or its affiliates own equity interests (or interests convertible into equity) in certain Trading Systems or their parent companies, including BIDS Holdings LP and BIDS Holdings GP LLC (commonly known as “BIDS”); CHI-X Global Holdings LLC; National Stock Exchange of India; Miami International Holdings Inc.; Equilend; MEMX Holdings LLC; Euroclear Holding SA/NV; LCH.Group Holdings Limited (Clearing) ; Turquoise Global Holdings Ltd.; CJSC The Moscow Interbank Currency Exchange Settlement House; CME; ICE US Holding Company, LP; LCH Clearnet Group LTD. (Clearing); OTCDeriv Limited; TradeWeb Markets LLC; TIFFE – Tokyo Financial Futures Exchange; iSWAP Limited (JV with TP ICAP); EOS Precious Metals Limited; CreditDeriv Limited; FXGLOBALCLEAR; The Depository Trust and Clearing Corporation; CME/CBOT/NYMEX; Dubai Mercantile Exchange; Intercontinental Exchange; Bombay Stock Exchange; and Japan Securities Depository Center Inc.; and Japan Securities Clearing Corporation.

The Trading Systems on which MSWM trades or effects securities lending transactions for client accounts and in which MSWM 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 MSWM or its affiliates own interests and on which MSWM 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 MSWM and/or MS&Co. receive from one or more Trading System may exceed the amount that is charged. Under these limited circumstances, such payments would constitute payment for order flow.

Certain Trading Systems through which MSWM 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 MSWM or one of its affiliates or (ii) MSWM or one of its affiliates acting for its own proprietary accounts.

***MSWM Affiliate in Underwriting Syndicate; Other Relationships with Security Issuers.*** If an affiliate of MSWM is a member of the underwriting syndicate from which a security is purchased, we or our affiliates may directly or indirectly benefit from such purchase. Newly issued shares of securities purchased for a client’s account normally provide for a fee, called a “reallowance fee,” to be paid by the issuing corporation

to the underwriters of the securities which will be deemed additional compensation to us, if received by us.

MSWM and/or its affiliates have a variety of relationships with, and provide a variety of services to, issuers of securities recommended for client accounts, including investment banking, corporate advisory, underwriting, consulting, and brokerage relationships. As a result of these relationships with an issuer, MSWM or its affiliates may directly or indirectly benefit from a client’s purchase or sale of a security of the issuer. For example, MSWM or its affiliates may provide hedging services for compensation to issuers of structured investments (such as structured notes) recommended for client accounts. In such a case, MSWM or its affiliates could benefit if a client account purchased such an instrument, or sold such an instrument to another purchaser in lieu of selling or redeeming the instrument back to the issuer, as such transactions could result in the issuer of the instrument continuing to pay MSWM or its affiliates fees or other compensation for the hedging services related to such instrument. Similarly, if the hedging service with respect to such an instrument is not profitable for MSWM or its affiliates, MSWM or its affiliates may benefit if MSWM’s client accounts holding such instruments sold or redeemed them back to the issuer. We address these conflicts by disclosing them to you.

***MSWM Affiliate as Investment Advisor or Service Provider.***

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

***Affiliated Sweep Investments.*** MSWM 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 Mutual Funds.*** As described in Item 4.C above, with respect to non-Retirement Account clients, MSWM or its affiliates earn greater compensation from mutual funds than from separate accounts. At times, a manager may believe that it is in a client’s interest to maintain assets in cash, particularly for defensive purposes in volatile markets. The above-described Bank Deposit Program revenue and fees for Money Market Funds for accounts of non-Retirement Account clients and other payments create a conflict of interest to the extent that the additional payments influence MSWM to recommend or select a strategy, model, manager or investment style that favors cash balances.

Please note that the Financial Advisor does not receive any of the Bank Deposit Program revenue or fees from Money Market funds as described herein.

***Affiliated Managers.*** From time to time, we may offer managers in the CES program that are affiliated with us. Although some investment managers and/or some investment strategies may be available in more than one program, each program may offer investment managers and other features that are not available in other MSWM programs. The Client understands that we and our affiliates will receive more aggregate fees when the Client selects a manager affiliated with us than if the Client selects a manager that is not affiliated with us. Thus, MSWM and its

Financial Advisors have a conflict of interest when identifying affiliated managers to the Client. Client may choose only unaffiliated managers if it so desires. Similarly, if a manager is not affiliated with us but we have an ownership share in the manager, we and our Financial Advisors have a conflict of interest in identifying that manager to the Client because, as an owner, we benefit from the manager's profits.

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

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

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

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

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

## Item 7: Client Information Provided to Portfolio Managers

In the programs listed in this Brochure, the manager requests information from you, and any updates it requires from time to time. Your Financial Advisor may help you forward information in response to manager requests.

## Item 8: Client Contact with Portfolio Managers

We do not restrict you from contacting and consulting with your portfolio manager.

In the programs listed in this Brochure, you have a direct contractual relationship with the manager, and so may contact the manager to determine the consultation you may have with the 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 Citigroup Global Markets Inc. ("CGM") are predecessor investment adviser and broker-dealer firms of Morgan Stanley Smith Barney LLC. ("MSWM"). "Citi" means Citigroup, Inc., a former, indirect partial owner of MSWM.

- On June 8, 2016, the SEC entered into a settlement order with MSWM ("June 2016 Order") settling an administrative action. In this matter, the SEC found that MSWM willfully violated Rule 30(a) of Regulation S-P (17 C. F. R. § 248.30(a)) (the "Safeguards Rule"). In particular, the SEC found that, prior to December 2014, although MSWM had adopted written policies and procedures relating to the protection of customer records and information, those policies and procedures were not reasonably designed to safeguard its customers' personally identifiable information as required by the Safeguards Rule and therefore failed to prevent a MSWM employee, who was subsequently terminated, from misappropriating customer account information. In determining to accept the offer resulting in the June 2016 Order, the SEC considered the remedial efforts promptly undertaken by MSWM and MSWM's cooperation afforded to the SEC Staff. MSWM consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, and to pay a civil penalty of \$1,000,000.
- On January 13, 2017, the SEC entered into a settlement order with MSWM ("January 2017 Order") settling an administrative action. The SEC found that from 2009 through 2015, MSWM inadvertently charged advisory fees in excess of what had been disclosed to, and agreed to by, its legacy CGM clients, and, from 2002 to 2009 and from 2009 to 2016, MS&Co. and MSWM, respectively, inadvertently charged fees in excess of what was disclosed to and agreed to by their clients. The SEC also found that MSWM failed to comply with requirements regarding annual surprise custody examinations for the years 2011 and 2012, did not maintain certain client contracts, and failed to adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Investment Advisers Act of 1940 (the "Advisers Act"). The SEC found that, in relation to the foregoing, MSWM willfully violated certain sections of the Advisers Act. In determining to accept the offer resulting in the January 2017

Order, the SEC considered the remedial efforts promptly undertaken by MSWM. MSWM consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, to certain undertakings related to fee billing, books and records and client notices and to pay a civil penalty of \$13,000,000.

- On February 14, 2017, the SEC entered into a settlement order with MSWM settling an administrative action. The SEC found that from March 2010 through July 2015, MSWM solicited approximately 600 non-discretionary advisory accounts to purchase one or more of eight Single Inverse Exchange Traded Funds (“SIETFs”), without fully complying with its internal written compliance policies and procedures related to these SIETFs, which among other things required that clients execute a disclosure notice, describing the SIETF’s features and risks, prior to purchasing them, for MSWM to maintain the notice, and for subsequent related reviews to be performed. The SEC found that, despite being aware of deficiencies with its compliance and documentation of the policy requirements, MSWM did not conduct a comprehensive analysis to identify and correct past failures where the disclosure notices may not have been obtained and to prevent future violations from occurring. The SEC found that, in relation to the foregoing, MSWM willfully violated section 206(4) of the Investment Advisers Act of 1940 and Rule 206(4)-7 thereunder. MSWM admitted to certain facts and consented to a censure, to cease and desist from committing or causing future violations, and to pay a civil penalty of \$8,000,000.
- On June 29, 2018, the SEC entered into a settlement order with MSWM settling an administrative action which relates to misappropriation of client funds in four related accounts by a single former MSWM financial advisor (“FA”). The SEC found that MSWM failed to adopt and implement policies and procedures or systems reasonably designed to prevent personnel from misappropriating assets in client accounts. The SEC specifically found that, over the course of eleven months, the FA initiated unauthorized transactions in the four related client accounts in order to misappropriate client funds. The SEC found that while MSWM policies provided for certain reviews prior to issuing disbursements, such reviews were not reasonably designed to prevent FAs from misappropriating client funds. Upon being informed of the issue by representatives of the FA’s affected clients, MSWM promptly conducted an internal investigation, terminated the FA, and reported the fraud to law enforcement agencies. MSWM also fully repaid the affected clients, made significant enhancements to its policies, procedures and systems (“Enhanced MSWM Policies”) and hired additional fraud operations personnel. The SEC found that MSWM willfully violated section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder. The SEC also found that MSWM failed to supervise the FA pursuant to its obligations under Section 203(e) (6) of the Advisers Act. MSWM consented, without admitting or denying the findings, to a censure; to cease and desist from committing or causing future violations; to certain undertakings, including certifications related to the implementation and adequacy of the Enhanced MSWM Policies and to pay a civil penalty of \$3,600,000.

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

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

Morgan Stanley (“Morgan Stanley Parent”) is a financial holding company under the Bank Holding Company Act of 1956. Morgan Stanley Parent is a corporation whose shares are publicly held and traded on the New York Stock Exchange. (“NYSE”). Prior to June 28, 2013, MSWM 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 MSWM. Accordingly, MSWM is now a wholly owned indirect subsidiary of Morgan Stanley Parent.

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

- Securities underwriting, distribution, trading, merger, acquisition, restructuring, real estate, project finance and other corporate finance advisory activities;
- Merchant banking and other principal investment activities;
- Brokerage and research services;
- Asset management;
- Trading of foreign exchange, commodities and structured financial products; and
- Global custody, securities clearance services and securities lending.

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

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

- MSWM and MS&Co. generally do not act as principal in executing trades for MSWM 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 MSWM’s ability to execute transactions through alternative execution services (e.g., electronic communication networks and crossing networks) owned by MSWM, MS&Co. or their affiliates.

These restrictions may adversely impact client account performance.

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

**Related Investment Advisors and Other Service Providers.** MSWM 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, MSWM and its affiliates earn more money than if you invest in an unaffiliated mutual fund. Generally, for Retirement Accounts, MSWM rebates or offsets fees so that MSWM complies with IRS and Department of Labor rules and regulations.

Morgan Stanley Investment Management Inc. serves 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 Services Company Inc., its wholly owned subsidiary, provides limited transfer agency services to certain open-end investment companies.

Morgan Stanley Distribution Inc. serves as distributor for the open-end investment companies, and has entered into selected dealer agreements with MSWM and affiliates. Morgan Stanley Distribution Inc. also may enter into selected dealer agreements with other dealers. Under many of these agreements, MSWM 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).

Related persons of MSWM act as a general partner, administrative agent or special limited partner of a limited partnership or managing member or special member of a limited liability company to which such related persons serve as adviser or sub-adviser and in which clients have been solicited in a brokerage or advisory capacity to invest. In some cases, the general partner of a limited partnership is entitled to receive an incentive allocation from a partnership.

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

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

## **Code of Ethics**

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

The Code generally operates to protect against conflicts of interest either by subjecting Employee activities to specified

limitations (including pre-approval requirements) or by prohibiting certain activities. Key provisions of the Code include:

- The requirement for certain Employees, because of their potential access to non-public information, to obtain their supervisors’ prior written approval or provide pre-trade notification before executing certain securities transactions for their personal securities accounts;
- Additional restrictions on personal securities transaction activities applicable to certain Employees (including Financial Advisors and other MSWM employees who act as portfolio managers in MSWM investment advisory programs);
- Requirements for certain Employees to provide initial and annual reports of holdings in their Employee securities accounts, along with quarterly transaction information in those accounts; and
- Additional requirements for pre-clearance of other activities including, but not limited to, Outside Business Activities, Gifts and Entertainment, and U.S. Political Contributions and Political Solicitation Activity.

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

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

## **Reviewing Accounts**

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

Your Financial Advisor is then responsible for reviewing your account on an ongoing basis. We will ask you at least annually if your investment objectives have changed. If your objectives change, you should discuss with your Financial Advisor whether your selected manager is still appropriate for your needs.

The Consulting Group’s operations department conducts various checks on a periodic basis (e.g., inactive accounts) for the programs listed in this Brochure.

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

## **Client Referrals and Other Compensation**

See “Payments from Managers” in Item 6.B above.

MSWM may compensate affiliated and unrelated third parties for client referrals in accordance with Rule 206(4)-3 of the Advisers Act. If the client invests in an investment advisory program, the compensation paid to any such entity will typically consist of an ongoing cash payment stated as a percentage of MSWM’s advisory fee or a one-time flat fee, but may include cash payments determined in other ways.

**Financial Information**

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

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

MSWM 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**

Retirement Accounts generally effect temporary sweep transactions of new free credit balances into Deposit Accounts established under the Bank Deposit Program.

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 MSWM 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 or all 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.

MSWM expects to provide services as a fiduciary (as that term is defined under ERISA or the Code) with respect to Retirement Accounts. MSWM believes that investing in shares of the funds for sweep purposes may be appropriate for Retirement Accounts 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.

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

The fund expense information below reflects the most recent information available to us as of January 31, 2020, 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<br/>Fee</b> | <b>Distribution<br/>and Service<br/>Fees</b> | <b>Other<br/>Expenses</b> | <b>Total Annual<br/>Fund<br/>Operating<br/>Expenses</b> | <b>Total Annual Fund<br/>Operating Expenses<br/>After Fee Waivers<br/>and/or Expense<br/>Reimbursements</b> |
|---------------------------------------------------------|-------------------------|----------------------------------------------|---------------------------|---------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| MSILF Government Securities-<br>Participant Share Class | 0.15%                   | 0.50%                                        | 0.06%                     | 0.71%                                                   | 0.45%                                                                                                       |
| MS U.S. Government<br>Money Market Trust                | 0.15%                   | 0.10%                                        | 0.11%                     | 0.36%                                                   | 0.36%                                                                                                       |

**Interest Earned on Float**

If MSWM is the custodian of your account, MSWM may retain as compensation, for providing services, the account's proportionate share of any interest earned on cash balances held by MSWM (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.