

# **Form ADV Wrap Fee Program Brochure**

## **Morgan Stanley Smith Barney LLC**

Morgan Stanley Access Investing® Program

**May 12, 2020**

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**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 describes material changes to the ADV Brochure since the version of this Brochure dated March 29, 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, the way Fees were calculated changed 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.

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

### **Disciplinary Information**

On May 12, 2020, the SEC entered into a settlement with MSWM regarding an administrative action. In this matter, MSWM, without admitting or denying the findings and without adjudication of any issue of law or fact, consented to the entry of the order that finds that MSWM willfully violated certain sections of the Investment Advisers Act of 1940, specifically Sections 206(2) and 206(4) and Rule 206(4)-7 thereunder. (Item 9)

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

MSWM offers clients many different advisory programs. You may obtain ADV Brochures for other MSWM investment advisory programs at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV).

All client assets are custodied at MSWM (except for “sweep” assets custodied at the Sweep Banks and, if applicable, the Sweep Fund (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.*

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

In addition, we reasonably expect to provide services as a “fiduciary” (as that term is defined in Section 3(21)(A) of the Employee Retirement Income Security Act of 1974 (“ERISA”) and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”)), with respect to individual retirement accounts (“IRAs” or “Retirement Accounts”) (as described in Section 4975 of the Code).

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

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

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

We will supervise our professionals to ensure that they are providing the services within appropriate guidelines and we will monitor our employees to ensure that they meet prevailing ethical standards.

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

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

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

### A. General Description of the Morgan Stanley Access Investing ® Program and Services

Morgan Stanley Access Investing (“Program”) offers you the ability to invest in one or more of our investment model strategies managed by a professional investment management team employed by MSWM (each an “Investment Strategy”). We will ask you to indicate an investment goal and risk tolerance for your account. We will also ask you to provide us with certain additional information, as applicable to the investment goal you indicated, about your age, your financial situation, the amount you intend to contribute initially and on an ongoing basis to fund the account, and other accounts and assets you hold either with MSWM or at third party financial institutions. Based upon this information we will also assign additional suitability attributes, such as liquidity and time horizon. Together, this information creates a complete investment profile of your account (“Investor Profile”).

We will recommend an Investment Strategy based upon your Investor Profile. You may choose to accept our recommendation or select a different Investment Strategy for the account. Once you have selected the Investment Strategy in which to invest, MSWM will have discretion to determine what securities to purchase and sell for your account and will implement such investment decisions without your further consent, based upon the discretionary authority you have granted us. Investments in your account will be comprised of unaffiliated open-end mutual funds and exchange traded funds (“ETFs”), which together are referred to as “Funds” throughout this ADV Brochure.

You also have the option of applying one of several themes described below to the investments that we include in the management of your Investment Strategy. The Program offers three core portfolios to choose from as well more specific themes that offer you the opportunity to invest in prevailing market trends, or hold investments that reflect your personal values. Thematic investments are blended with core portfolio investments as part of a globally diversified strategy. When you select a theme, up to 30% of the investments in your portfolio will align to the theme you’ve selected. We, in our sole discretion, will determine whether a specific investment meets the inclusion criteria of a core portfolio or a theme. The performance and asset allocation of your account if you apply a theme tilt will differ from accounts that are invested in the same Investment Strategy but that have not applied a theme. A theme will not be applied to your Sweep Investments, as defined below. As well, the portion of your account assets invested in a theme will not be included in tax-loss harvesting, as described below. For a more detailed description of the core portfolios and themes available, please refer to Item 6(D), *MSWM acting*

as *Portfolio Manager - Methods of Analysis and Investment Strategies*, below.

You should be aware that the Program is not designed to provide you with a comprehensive financial plan but rather to recommend an Investment Strategy that seeks to achieve the specific investment goal that you have indicated.

**Tax-Loss Harvesting.** If eligible, you may request that we seek to “harvest” tax losses across all of your taxable accounts in the Program. In effecting tax-loss harvesting, we will not consider dividends in your account or any assets you may hold in other accounts at MSWM that are not invested in the Program. We will also not consider any thematic investments held in your account.

Upon confirmation of your tax harvesting enrollment, we will:

- (i) Monitor your account(s) daily for eligible losses that can be sold to satisfy a tax-loss harvest.
- (ii) Once an eligible loss exceeds approximately 10% of the account value, sell ETF, and/or if we believe appropriate mutual fund, shares in order to realize the losses in your account.
- (iii) Monitor all accounts in the Program to ensure that all transactions comply with Internal Revenue Service guidelines during the wash sale period (this is the 61 day period from 30 days before to 30 days after the date of sale during which an investor cannot purchase substantially identical stocks or securities).
- (iv) Reinvest the proceeds of such sale in one or more broad-based ETFs or cash equivalents during any applicable restricted period.
- (v) Hold the replacement ETF shares or cash equivalents or other securities in your account for a minimum of 30 days. Thereafter, we will monitor the value of the replacement security and generally not sell it if the sale will result in a substantial short-term capital gains tax. However, the replacement security may be sold in certain instances where the potential short-term capital gain is below a specified minimum threshold. In such case, the sale will result in ordinary income to you.
- (vi) Once the replacement security is sold, we will invest the proceeds in the account in accordance with the applicable Investment Strategy. If you open a new account during this 30 day restricted period and the Investment Strategy you selected calls for your account to be invested in a security that was harvested in another account in the Program, your account will instead be invested in a replacement ETF, with similar risk and asset class characteristics, during the restricted period. Once the restricted period ends, we will seek to invest in the security originally mandated by the Investment Strategy in a tax-efficient manner.

There is no guarantee that any harvesting request will achieve any particular tax result. MSWM does not provide you with any tax advice in connection with tax-loss harvesting. Tax-loss

harvesting may adversely affect the investment performance of your account(s).

## Electronic Relationship

The Program is offered through an interactive digital platform. This means that most of your interactions with MSWM will be conducted electronically via email, through a dedicated Program website on the internet, and/or the Program’s mobile application. You may also call Self Directed Support at 866-479-1844.

You can access important documents, view your account holdings and transactions, and review your portfolio’s performance on the Program’s website and mobile application. You will be asked to provide information to us by email or on the Program website or mobile application. We will generally send all communication regarding your account electronically as well. We will not send you any account documentation or communications in paper form unless we are required to do so pursuant to applicable law or we determine to do so at our own discretion. Your continued participation in the Program is contingent upon you agreeing to receive all required account documentation and communications electronically. You should take into consideration the electronic nature of the Program when determining whether it is appropriate for your investment needs and goals.

## Account Opening

To enroll in the Program and open an account, you will be required to provide us with certain information required to create your Investor Profile, including your investment goal and risk tolerance, as well as certain additional information about your financial situation. You must enter into the MSWM Access Investing Investment Advisory Agreement (“Advisory Agreement”) which describes the terms and conditions governing your account and the discretionary investment advisory services we provide to you. You will also be required to complete and execute additional account documentation, including a brokerage account agreement, (“Account Documentation”) which will govern the custody of your account assets and the execution of securities transactions in your account. All of the terms of the Advisory Agreement and Account Documentation will set forth our mutual obligations regarding your account. Upon the completion and execution of the Advisory Agreement and all required Account Documentation, we will open your account for you within a reasonable amount of time. Until we incept your Program account, your assets will be held in a brokerage account that cannot be traded. During such time, the account assets will not be actively managed nor will MSWM act as a fiduciary with respect to such assets.

## Investment Restrictions

You may request reasonable restrictions on the management of your account. For example, you may request that certain specified securities or categories of securities not be purchased for your account. However, any restriction you impose will not apply to the management of the underlying securities in any Fund included in your account. MSWM will determine in its sole discretion if it will agree to any such requested restriction



and how to implement it, and may implement restrictions differently in accounts that have elected tax loss harvesting services, if available. Such restrictions may negatively impact the performance of your account. You may request to impose reasonable investment restrictions on your account by calling Self Directed Support at 866-479-1844.

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

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

### **Trading and Execution Services**

Pursuant to the investment and trading discretion you grant us under the terms of the Advisory Agreement, MSWM will manage the securities held in your account in such manner as we may deem advisable, subject to the terms and conditions of the Advisory Agreement, the Investment Strategy and theme (if applicable) you selected, and reasonable restrictions you impose, if any.

As a general matter, transactions for the purchase or sale of securities and other investments in your account will be effected through MSWM or an affiliate. We may reallocate or rebalance assets in your account without your prior consent to each such transaction. Reallocation of assets may have tax consequences.

**Best Execution.** We will always attempt to obtain the most favorable terms for any transaction that we make in your account. This practice is often referred to as “best execution” in the industry. For transactions effected in your account in an ETF, we may determine that best execution is more likely to be achieved by having a broker-dealer other than MSWM or an affiliate execute the transaction, even though such broker-dealer requires payment of a commission or commission equivalent to execute the transaction. This applies to certain transactions, including, without limitation, block trades in which we aggregate securities purchases or sales for your account with those of one or more of our other clients. In such instance, you will incur additional fees or charges related to these trades. These costs are in addition to the Advisory Fee described below, will be included in the net price of the security, and will not be reflected as a separate charge on your trade confirmations or account statements.

**Aggregation of Transactions.** MSWM, acting for your account, may aggregate orders for the same securities with other clients, our own accounts, and/or accounts of our employees or related persons. In such cases, each account in the aggregated transaction is charged or credited with the average price per unit and, where applicable, any additional fees.

**Custody of your Account Assets.** MSWM will generally maintain custody of all cash, securities and other investments in your account. As custodian, we will maintain your account assets, debit fees and other expenses, process deposits to and

withdrawals from the account, and provide such other custodial functions as are customarily performed with respect to securities brokerage accounts.

There may be instances where certain of your cash is custodied elsewhere as part of our sweep program, the Bank Deposit Program, as further described in Item 4.C below under “Cash Sweeps”. In such case, we will provide you with notification as to the applicable custodian.

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

We provide you with written confirmation of each securities transaction effected in your account. Pursuant to the terms of the Advisory Agreement, you may request that we suppress the delivery of trade confirmations after the completion of each trade. Instead, information about securities transactions executed in your account will be included in your monthly account statement. This suppression of trade confirmations will generally be implemented in your account one day after account inception. You are not required to agree to this provision and you may choose to receive from us, at no additional cost, trade confirmations for every transaction, for a specific transaction, or for any period in which you elected not to receive individual trade confirmations. You can also revoke your authorization at any time. You may select any of these options by contacting Self Directed Support at 866-479-1844. Even in instances where you have requested to suppress the delivery of trade confirmations, we may still deliver trade confirmations after the completion of certain trades. You will also receive fund prospectuses, where appropriate.

We will also provide monthly account statements for each month in which activity occurs in your account but will send you an account statement at least quarterly even in the instance that there is no activity in your account. These monthly account statements will reflect all of the transactions effected in your account, your holdings, any deposits to or withdrawals from the account, the amount of fees and expenses deducted from your account (as further described below), as well as any realized and unrealized gains and losses in the account.

You should review all such trade confirmations and account statements promptly upon receipt and to notify us immediately of any errors or discrepancies.

You have the ability to review performance information about your account at any time on the Program’s website or through our mobile application. We recommend that you review your account performance periodically.

### **Advisory Fee**

To participate in the Program, you will pay an annualized fee of up to 0.35% of assets under management (“Advisory Fee”). The Advisory Fee covers (a) our investment advisory and discretionary portfolio management services, (b) the execution of transactions in your account, (c) custody of your account assets, and (d) reporting. This is a wrap fee.

MSWM may offer certain promotional discounts on the Advisory Fee. A discounted Advisory Fee may be available in

certain instances or for a certain category of investors, including but not limited to, MSWM employees or participants in stock option plan services. Certain clients may also be eligible to pay a discounted Advisory Fee based upon factors such as the type and size of a client's relationship with MSWM and/or its affiliates. The specific fee rate applicable to your account will be communicated to you during the online account opening process. We will also send you written confirmation of your Advisory Fee rate upon account opening.

***Deposits and Withdrawals; Refund upon Account Termination.*** You may make deposits into the account at any time, subject to our right to terminate the account. Deposits are limited to cash. However, we may accept other types of securities for deposit at our discretion. We will attempt to liquidate securities transferred or journaled into your account in order to fund the account and the cash proceeds will be invested in the Investment Strategy. Any securities that we do not liquidate will continue to be held in your account. However, MSWM will not (i) include such unliquidated securities in the calculation of the Advisory Fee, (ii) manage, invest or provide investment advice or recommendations with respect to such unliquidated securities, or (iii) act as a fiduciary with respect to such unliquidated securities. If Funds are transferred or journaled into the account, you will not recover the front-end sales charges previously paid and/or may be subject to a contingent deferred sales charge, a redemption or other fee based on the length of time that you have held those securities.

We may require you to provide us with up to five (5) days prior notice of a withdrawal of assets from your account, which will be processed subject to the usual and customary securities settlement procedures. If you wish to withdraw a partial balance from the account, upon your request we will liquidate securities from your account representing the amount you have requested to withdraw and thereafter you will be permitted to make a withdrawal of the cash. If you wish to withdraw securities from the account you may only do so if you withdraw the full balance of the account. Withdrawals of securities representing a partial balance of the account are not permitted.

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 Advisory 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, 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 mutual fund prospectus. 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.

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 of the above-referenced methods are not available to us or if we do not believe them to be accurate, we will value any securities and investments in the account in a manner we determine in good faith to reflect fair market value. For certain securities or investments, including collateralized loan obligations, we may rely upon our affiliate, Morgan Stanley & Co. LLC ("MS&Co") to provide a valuation.

#### ***When Fees are Payable.***

The Advisory Fee is charged monthly, in advance. The initial Advisory Fee is due in full on the date the account is inceptioned at MSWM (the "Inception Date") and is based on the market value of assets in the account on or about that date. Inception occurs when MSWM has notified you that it has approved the account for trading and you have deposited sufficient funds into the account. The initial Advisory Fee payment generally covers the period from the Inception Date through the last business day of the applicable billing period and prorated accordingly. Thereafter, the Advisory 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.

The Advisory Agreement authorizes us to deduct the Advisory Fee, and any other fees and expenses described in this ADV Brochure and/or the Advisory Agreement, when due from the assets contained in the account. We reserve the right to liquidate a portion of your account assets to cover the Advisory Fee and all other fees and expenses, at any time. Liquidation may affect the relative balance of your account, and may also have tax consequences and/or cause your account to be assessed transaction charges.

## **B. Comparing Costs**

The Advisory Fee is a wrap fee which means that you pay one fee, based upon the market value of the account, for the advisory, execution, custody and reporting services we provide to you under the Program. Depending on the level of trading and types of securities purchased or sold in your account, you may pay more or less for such services than if you purchased such services separately (to the extent that such services would be available separately). You may also be able to obtain transaction execution at a higher or lower cost in a brokerage account at MSWM or elsewhere. However, such transactions could not be executed on a discretionary basis by us in a brokerage account. Furthermore, the same or similar services to those available in the Program may be available at a lower fee in programs offered by other investment advisors.

For certain investment styles there may be a mutual fund and separately managed account offered by the same investment management firm and, therefore, the underlying investments in the separately managed account and the mutual fund may be substantially identical. Because the underlying expenses and fees of the separately managed account are generally lower, the performance of a separately managed account is generally higher than that of the comparable mutual fund. Therefore, for such investment styles, if the client meets the minimum level of

investment for the separately managed account, the client may have a financial benefit to select a separately managed account as the investment product. In addition, we offer other programs that do not offer mutual funds or ETFs. The fees in those programs may be higher or lower than the fees in this Program.

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.

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

### **C. Additional Fees**

The Advisory Fee does not cover the following fees and expenses which may be charged to your account: (a) fees or other charges that you may incur in instances where an ETF transaction is effected through a third party broker-dealer and not through us or our affiliates. Such fees or other charges will be included in the price of the ETF and not reflected as a separate charge on your trade confirmations or account statements and (b) certain costs or charges imposed by third parties, including odd-lot differentials, transfer taxes, foreign custody fees, exchange fees, supplemental transaction fees, regulatory fees, and other fees or taxes required by law.

#### **Funds in Advisory Programs**

For all Fund investments, you will also incur fees and other expenses that are paid by the Fund but borne by all fund shareholders owning the same class of shares (e.g. management fees, custody, administrative services and transfer agency fees, redemption fees, portfolio transaction execution costs and other fees and expenses, including distribution fees and shareholder servicing fees). Information about such fees and expenses is set forth in each Fund's prospectus.

Investing in mutual funds and ETFs is more expensive than certain other securities or investment vehicles. In addition to the Advisory 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 Advisory Fee amount reflected in your account statements. Each

mutual fund and ETF expense ratio (the total amount of fees and expenses charged by the Fund) is stated in its prospectus. The Fund 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. 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.

MSWM also receives the following fees and payments.

***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 employees for educational, marketing and other promotional efforts. In this connection, Fund representatives may also work closely with us 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 employees 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 our employees, and to occasionally entertain our employees (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 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 ETF sponsors with more than one hundred passively-managed ETFs on our platform. Additional fees apply to elect to purchase supplemental data analytics regarding other financial product sales at MSWM.



### ***Conflicts of interests regarding the above-described Fees and Payments***

Please note that the above-described fees and payments are specific to Funds and that 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 MSWM 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. In order to mitigate these conflicts, Financial Advisors and their Branch Office Managers do not receive additional compensation for recommending Funds from sponsors that purchase data analytics.

In addition, beginning April 1, 2020, certain mutual funds managed by an affiliate, Morgan Stanley Investment Management, Inc., will be available for purchase across MSWM's investment advisory programs, including this Program. To the extent that such 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 for a particular fund while most funds offer multiple shares 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"), which we typically utilize. 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.. 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 client, 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.

Upon termination of your advisory account for any reason, or in the case where mutual fund shares are transferred 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.

The rates and terms and conditions of these mutual fund arrangements may change at any time.

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***

At times, a portion of your account may be held in cash. This may be due to, among other things, an Investment Strategy's allocation to cash, a liquidation of assets to pay for Advisory Fees, or for liquidity purposes during volatile market conditions. All such cash allocations and free credit balances in your account will automatically be deposited or "swept" into our Bank Deposit Program ("BDP") as your sweep investment (the "Sweep Investment").

It is important to note that, free credit balances and allocations to cash, including assets invested in BDP, are included in the calculation of the Advisory Fee.

We will effect sweep transactions only to the extent permitted by law and if you meet the BDP's eligibility criteria.

Under the BDP, funds will be automatically deposited into interest-bearing, FDIC-insured deposit accounts ("Deposit Accounts") established for you by and in the name of Morgan Stanley, as agent and custodian, at one or more sweep banks, which are affiliates of MSWM: Morgan Stanley Bank, N.A. and Morgan Stanley Private Bank, National Association (individually and collectively, the "Sweep Banks") 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. 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.*** 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 the 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. MSWM will not receive cash compensation or credits in connection with the BDP for Retirement Account assets in the Deposit Accounts.

The fee received by MSWM may affect the interest rate paid by the Sweep Banks on your Deposit Accounts.

In addition, MSWM, the Sweep Banks and their affiliates receive other financial benefits in connection with BDP. Through the BDP, 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.

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

Financial Advisors will receive a fee for referring clients to the Program. A Financial Advisor may therefore have a financial incentive to recommend the Program instead of other MSWM programs or services.

If you invest in the Program, a Financial Advisor may agree to charge a fee that is less than the maximum Advisory Fee of 0.35% of assets under management. However, the referral fee paid to the Financial Advisor is based upon the Advisory Fee charged to your account. Therefore, Financial Advisors have a financial incentive not to reduce fees.

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

**Account Minimums.** To participate in the Program, you must maintain a minimum investment amount of \$5,000 for the life of the account, except as may otherwise be agreed to by us in our sole discretion. Your account will not begin to be actively managed until the account balance meets this minimum investment amount. In the event withdrawals cause the account value to fall below the required minimum investment amount, we may discontinue managing your assets in accordance with the Investment Strategy and may require that you close your account. The Program is designed as a long-term investment vehicle and withdrawals may impair your ability to meet your investment goal.

**Types of Clients.** The Program is available for natural person clients who open individual and IRA accounts.

## **Item 6: Fund Selection and Evaluation**

### **A. Selection of the Investment Strategy**

We use MSWM’s proprietary algorithms to provide the investment advisory services under the Program. These algorithms are developed and maintained by MSWM’s Global Investment Committee (“GIC”). Based upon MSWM’s capital market assumptions, the GIC defines the assets allocations that are used as the basis for the model portfolios offered to clients

under the Program. An MSWM investment team selects and invests the specific Funds that populate these model portfolios.

Based upon your Investor Profile, our proprietary algorithm will recommend an Investment Strategy that we believe best fits your investment goal, risk tolerance, and financial needs. You may choose to accept our recommendation or select a different Investment Strategy for the account. Algorithms will also be used to monitor for investment rebalancing and systematically evaluate your portfolio’s suitable risk level over time. The deposits and withdrawals that you make are also evaluated by algorithms that determine the specific securities that need to be traded based on the underlying tax lots within your asset allocation, and other instructions that may have been provided to MSWM. If you choose to enroll in optional services, that may include but are not limited to tax-loss harvesting, your eligible account(s) will be monitored by algorithms that determine the required transactions to effect in your account(s).

Throughout the life of your account, if you make any changes to the information that makes up your Investor Profile, the algorithm will also evaluate whether your account should be rebalanced and/or a different Investment Strategy should be recommended.

**Rebalancing your Account.** We monitor your portfolio every day, looking for opportunities to rebalance. Whenever the investments in your portfolio drift too far, generally by 5% or more, from the weighted percentage of the portfolio’s target asset allocation, our portfolio management team will automatically rebalance your investments to maintain the appropriate risk level aligned with the Investment Strategy that you have selected.

In addition, for certain investment goals, your account will be systematically evaluated on a quarterly basis to determine whether the Investment Strategy for your account remains appropriate based upon your current Investor Profile. This strategy optimization review will also determine whether your account’s asset allocation continues to represent the appropriate risk level as you move closer to your investment goal. This is referred to as a dynamic “glide path”. Throughout the life of your account, we will dynamically adjust the asset allocation based upon your progress towards your investment goal across a range of projected potential market outcomes. Any changes to the Investment Strategy recommended for your account as part of the dynamic glide path will align with your Investor Profile, including your stated risk tolerance.

Your account may also be rebalanced when you make material deposits or withdrawals, in connection with tax-loss harvesting, or when the GIC makes updates to its strategic asset allocation.

### **B. Selection and Review of Funds for the Program**

Each Investment Strategy is generally constructed of unaffiliated mutual funds and ETFs.

Our Global Investment Manager Analysis group (“GIMA”) evaluates every Fund available to be included in the Program. GIMA may delegate some or all of its functions to an affiliate or third party.

GIMA will conduct a qualitative and quantitative review of each Fund, which will include a review of a Fund’s complete Request for Information (RFI) proposal, sample portfolios, asset allocation histories, Form ADV (the form that investment managers use to register with the SEC), past performance information and marketing literature. GIMA will also consider additional factors such as personnel depth, turnover and experience, investment process, business and organization characteristics, and investment performance. GIMA personnel may also interview the Fund’s key personnel, and examine its operations. GIMA may also use a proprietary algorithm – a rules-based scoring mechanism – that reviews various factors and ranks each Fund on that basis.

Thereafter GIMA periodically evaluates the Funds on an ongoing basis to determine whether they continue to meet the criteria required to be included in the Program.

## **C. Conflicts of Interest**

***Advisory vs. Brokerage Accounts.*** MSWM may earn more compensation if you invest in the Program and pay the Advisory Fee than if you open a brokerage account and pay commissions for each securities transaction. MSWM therefore has a financial incentive to recommend the Program to you.

We address this conflict of interest by disclosing it to you and implementing processes through which we review your account at account-opening to ensure that it is appropriate for you in light of your investment goal and financial circumstances.

***Payments from Investment Managers.*** Please see *Item 4.C above (Additional Fees – Funds in Advisory Programs)*. Investment managers may also sponsor educational conferences and pay expenses of our employees attending these events. MSWM’s policies require that the training or educational portion of these conferences comprises substantially all of the event. Investment managers may sponsor educational meetings or seminars in which clients as well as MSWM are invited to participate.

Investment managers are allowed to occasionally give nominal gifts to our employees, and to occasionally entertain employees (subject to a limit of \$1,000 per employee per investment manager 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 these conflicts of interest by ensuring that any payments described in this “Payments from Investment Managers” section do not relate to any particular transactions or investment made by our clients with investment managers. Investment managers participating in the Program 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 disclosure under

“Funds in Advisory Programs” in Item 4.C above for more information.

***Other Relationships with Funds.*** Some Funds included in the Program may have business relationships with us or our affiliates. For example, a Fund may use Morgan Stanley & Co. LLC (“MS&Co.”) or an affiliate as its broker or may be an investment banking client of MS&Co. or an affiliate. GIMA does not consider the existence nor lack of a business relationship in determining whether to include a Fund in the Program.

***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, the investment managers in its programs, and their affiliates and employees may hold a position (long or short) in the same securities held in client accounts. MSWM and/or its affiliates are regular issuers of traded financial instruments linked to securities that may be purchased in client accounts. From time to time, the trading of MSWM or an affiliate – 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.*** MSWM may aggregate the securities to be purchased or sold for more than one client to obtain favorable execution to the extent permitted by law. MSWM is responsible for allocating the aggregated 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 provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other, for various clients (including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts), and for investment managers of Funds available through the Program. MSWM and its affiliates receive compensation and fees in connection with these services. We believe 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 your account will include some of the securities of companies or Funds for which MSWM and its affiliates, perform investment banking or other services.

***Restrictions on Securities Transactions.*** There may be periods during which MSWM is 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 have confidential or material non-public information. Furthermore, in certain investment advisory programs, MSWM may be compelled to forgo trading in, or providing advice regarding, MSWM Parent (as defined in Item 9 below) securities, and in certain related securities. These restrictions may adversely impact your account performance.

MSWM and its affiliates may also develop analyses and/or evaluations of securities sold in the Program, 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 and its affiliates are not obligated to effect any transaction that they believe would violate federal or state law, or the regulations of any regulatory or self-regulatory body.

**Research Reports.** 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; BM&F Bovespa; Miami International Holdings Inc.; Equilend; MEMX Holdings LLC; Euroclear Holding SA/NV; LCH Group Holdings Limited (Clearing); Source Holding Ltd; Turquoise Global Holdings Ltd.; CJSC The Moscow Interbank Currency Exchange Settlement House; CME; ICE US Holding Company, LP; LCH Clearent 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; 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 us 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. receives from one or more Trading System may exceed the amount that is charged. Under these limited circumstances, such payments would constitute payment for order flow.

Certain Trading Systems through which 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 Affiliates 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. MSWM and/or its affiliates have a variety of relationships with, and provide a variety of services to, issuers of securities purchased in 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 purchase or sale of a security of the issuer in a client's account.

**Affiliated Sweep Investments.** We have a conflict of interest where your available cash is swept into an affiliated MMF. See *Item 4.C above (Services, Fees and Compensation -- Additional Fees – Cash Sweeps)*, for more information.

**Investments in Sweep Investments.** At times, we may determine that it is in your best interest to maintain assets in cash, particularly for defensive purposes in volatile markets. The above-described Bank Deposit Program revenue and fees for money market funds, administrative services fees for accounts of non-Retirement Account clients and other payments create a potential for a conflict of interest to the extent that the additional payments could influence us to recommend an Investment Strategy style that favors cash balances.

**Nonpublic Information.** In the course of investment banking or other activities, MSWM and its 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 and its affiliates and agents will not be free to divulge or to act upon this information with respect to their advisory or brokerage activities, including their



activities with regard to the account. This may adversely impact the investment performance of the account.

**Other Investment Products Available.** We may offer to the public other investment products with similar investment styles and holdings as the Investment Strategies offered through the Program. Such products may be offered at differing fees and charges that may be higher or lower than the fees imposed by us in the Program. Furthermore, a separately managed account may utilize the same investment manager and investment strategy as a Fund, but involve different minimum investment amounts and fees. Fees for a separately managed account may be lower than for a similar Fund.

**Other Business with Certain Firms.** Certain investment management firms (which may be the managers of Funds in the Program) do other business with MSWM or our affiliates.

## D. MSWM acting as Portfolio Manager

### Description of Advisory Services

MSWM acts as the discretionary portfolio manager of accounts in the Program, as further described in Item 4.A above.

### Tailoring Services for Individual Clients

While MSWM does not provide you with a comprehensive investment plan under the Program, the investment advisory services we provide are tailored to your specific investment goals and financial situation. The Investment Strategy we recommend to you is specifically based upon the various suitability attributes that make up your Investor Profile. You may also place reasonable restrictions on the investments in your account as discussed above in Item 4.A. Additionally, for certain investment goals, we will apply a dynamic glide path approach to rebalancing, as further described in Item 6.A.

### Wrap Fee Programs

MSWM acts as both the wrap fee program sponsor and the portfolio manager in the Program. MSWM also acts as portfolio manager in the Global Investment Solutions and Select UMA wrap fee programs, as described in more detail in each program's respective ADV Brochures, which you may obtain at: [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV). MSWM receives the entire Advisory Fee for the Program.

MSWM does not act as portfolio manager in any programs which are not wrap fee programs but are otherwise similar to the Program.

### Performance-Based Fees

The Program does not charge performance-based fees.

### Methods of Analysis and Investment Strategies

Your Investment Strategy is comprised of two components: the GIC model asset allocation we recommend based upon your Investor Profile and the portfolio that you select.

Each model is based upon the asset allocation recommendations of MSWM's GIC. The model asset allocations use a combination of mutual funds, ETFs and cash to gain exposure to equities, fixed income, and alternative asset classes. MSWM may change the asset allocation of a model at any time. More detailed information on each model is available upon request.

- The **Wealth Conservation Model** is the GIC's most conservative allocation. This model may be appropriate for clients with a conservative risk tolerance and the need to prioritize preservation of purchasing power. The benchmark for this model consists of 65% Bloomberg Barclays Capital US Aggregate Bond Index and 20% MSCI All Country World Index Net/ 15% 90-Day T-Bills.
- The **Income Model** is the GIC's second most conservative allocation. This model may be appropriate for clients who have a moderately conservative risk tolerance who wish to generate steady income from their portfolio while tempering the risk that comes with more growth-oriented allocations. We use a benchmark that consists of 55% Bloomberg Barclays Capital US Aggregate Bond Index and 35% MSCI All Country World Index Net/ 10% 90-Day T-Bills for this model.
- The **Balanced Growth Model** is the GIC's middle-of-the-road allocation. This model may be appropriate for clients who have a moderate risk tolerance and are able to tolerate moderate volatility. For the Performance Seeking and Marketing-Tracking core portfolios described below, we use a benchmark that consists of 45% Bloomberg Barclays Capital US Aggregate Bond Index and 50% MSCI All Country World Index Net/ 5% 90-Day T-Bills.
- The **Market Growth Model** is one of the GIC's more aggressive allocations. This model may be appropriate for clients who have a moderate-to-aggressive risk tolerance and are able to tolerate moderate-to-high volatility. For this model, the benchmark is 35% Bloomberg Barclays Capital US Aggregate Bond Index and 65% MSCI All Country World Index Net.
- The **Opportunistic Growth Model** is the GIC's most aggressive allocation. This model may be appropriate for clients with an aggressive risk tolerance and are able to tolerate high volatility. The benchmark is 20% Bloomberg Barclays Capital US Aggregate Bond Index and 80% MSCI All Country World Index Net.

The Program offers you the option of selecting from one of our three core portfolios or several themes to guide the investments in your account.

Our core **Performance-Seeking Portfolio** seeks to optimize returns at a level of risk you've indicated you're comfortable with. Using the firm's best thinking in security selection, it invests in a blend of ETFs and mutual funds across equities and fixed income within U.S., international, and emerging markets.

You can add a theme to the Performance-Seeking Portfolio to invest in prevailing market trends and investment themes. By

choosing a theme, a portion of your investment (generally up to 30%) will be allocated to Funds that align to the theme you've selected. You can choose from one of the following:

- **Inflation Conscious:** Invests in our Performance-Seeking Portfolio, plus a theme toward inflation-hedged strategies. This theme incorporates the thinking that global central banks, led by the Federal Reserve, took extraordinary measures to stimulate economic growth with low interest rates and asset purchases in the wake of the 2007/8 financial crisis. These institutions are now looking to normalize policy by lifting interest rates and reducing balance sheets, moves that should ultimately tighten money supply. This portfolio seeks to limit the adverse impact of rising rates on potential investment returns.
- **Global Frontier:** Invests in our Performance-Seeking Portfolio, plus a theme toward frontier markets which consist of nations that are economically less developed than emerging market countries. The global frontier theme provides exposure to small, less accessible companies and investments that offer potential higher growth than other investments.
- **Emerging Consumer:** Invests in our Performance-Seeking Portfolio, plus a theme that provides exposure to emerging economies where population and economic growth in emerging markets should produce a surge in the middle class, creating billions of potential consumers. This theme emphasizes the importance of demographics in markets such as China and India that offer international diversification in high growth environments.
- **Robotics + Data + AI:** Invests in our Performance-Seeking Portfolio, plus a theme that provides exposure to companies leading technology transformation via artificial intelligence, data analysis and robotics. These new technologies are changing the industrial landscape helping companies reduce costs, improve product quality, and better forecast consumer demand. This portfolio consists of large and small-cap companies that are helping to lead this once-in-a-lifetime business transformation.
- **Defense & Cybersecurity:** The Post-Cold War period of relative tranquility has been replaced with ascendant geopolitical risk from the South China Sea to the Middle East and cyberattacks to water shortages. This portfolio invests in our Performance-Seeking Portfolio, plus a theme that offers exposure to companies and sectors that provide security products and services in geopolitically volatile times.
- **Genomics & Bio-Medicine:** Genetic revolution capable of unlocking the human genome will usher in a new era of medicine, where diagnosis and treatment will be personalized and often preventative. This portfolio invests in our Performance-Seeking Portfolio, plus a theme that offers exposure to technology and resources focused on breakthrough science changing how illness and disease are treated.

Another core portfolio is our **Impact Portfolio**, which invests in Funds whose holdings include companies that integrate

environmental, social and governance (ESG) factors in seeking to avoid risk and create long-term value.

You can also add a theme to the Impact Portfolio. By choosing a theme, a portion of your investment (generally up to 30%) will be allocated to Funds that align with your personal values. You can choose from one of the following:

- **Climate Action:** Invests in our Impact Portfolio, plus a theme that provides exposure to companies that avoid harmful environmental practices or support climate change solutions such as energy efficiency.
- **Gender Diversity:** Invests in our Impact Portfolio, plus a theme that provides exposure to companies advancing women via strong policies and programs as well as diverse boards and executive management.

Finally, our core **Market-Tracking Portfolio** offers a lower cost, ETF-only portfolio that provides diversified exposure across asset classes and global markets, designed to track a blended index which seeks to match the market's performance. The blend will include the MSCI All Country World Index (Net) and the Bloomberg Barclays Capital US Aggregate Bond Index and, depending on the GIC model asset allocation, it may also include 90-Day T-Bills.

## Risks

All trading in an account is at your risk. The value of the assets held in an account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. Investment performance of any kind is not guaranteed and past performance does not predict future performance with respect to any particular account. In addition, certain investment strategies that mutual funds or ETFs may use in the Program have specific risks, including those associated with investments in common stock, fixed income securities, real assets, American Depositary Receipts, mutual funds, ETFs, foreign securities and the investments below. Neither MSWM nor its affiliates have any responsibility for any assets not held in the account, nor for any act done or omitted on the part of any third party.

**Use of Algorithms.** We rely upon our proprietary algorithms and analytics to provide the investment advisory services offered through the Program, including but not limited to constructing the asset allocation of each Investment Strategy, analyzing your Investor Profile in order to recommend a appropriate Investment Strategy, and monitoring your account to determine when it is appropriate to rebalance. The algorithm's ability to recommend an appropriate Investment Strategy may be limited in the case that you do not provide accurate or complete information. The asset allocations of each Investment Strategy are based upon the GIC's market assumptions. Such market assumptions are hypothetical projections of investment outcomes based upon historical performance of a proxy index and fundamental macroeconomic and financial data. They do not reflect actual future market movements, investment returns, inflation, taxes, investment product fees and expenses, and/or other economic conditions which will affect actual performance.

Finally, errors and defects in the algorithm may impact the construction of the Investment Strategies and their asset

allocations. To address this risk, the Program's digital platform conducts quality assurance and user acceptance testing on an ongoing basis. As well, MSWM's Model Validation team performs an evaluation of the model analytics on an initial and ongoing basis.

**Exchange Traded Funds.** 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.

**Money Market Funds.** You could lose money in MMFs. Although MMFs classified as government funds (i.e., MMFs that invest 99.5% of total assets in cash and/or securities backed by the U.S. government) and retail funds (i.e., MMFs open to natural person investors only) seek to preserve value at \$1.00 per share, they cannot guarantee they will do so. The price of other MMFs will fluctuate and when you sell shares they may be worth more or less than originally paid. MMFs 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 be forced to cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings are liquidated and distributed to the fund's shareholders. This liquidation process could take up to one month or more. During that time, these funds would not be available to you to support purchases, withdrawals and, if applicable, check writing or ATM debits from your account.

**Investments in a Concentrated Number of Securities or 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.

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

While mutual funds and ETFs may at times utilize non-traditional investment options and strategies, they have different investment characteristics than unregistered privately offered alternative investments. Because of regulatory limitations, mutual funds and ETFs that seek alternative-like investment

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

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

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

**International Securities.** Investments in international securities have additional risks, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes and differences in financial and accounting standards. International investing may not be for everyone. These risks may be magnified in emerging markets, and even more so in frontier markets.

**Small Capitalization.** Such companies may lack the financial resources, product diversification and competitive strengths of larger companies. The securities of small capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.

**Tax Enhanced Strategies.** Such strategies may not be able to deliver realized losses because there are none to take, this would materially impact tracking error (against the benchmark index) or the tracking error would not be consistent over time. Quantitative efforts to identify and correct biases may not reduce, but may increase, tracking error.

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



implications that may result from acting on a particular recommendation.

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

Unless you have expressly retained the right to vote proxies, pursuant to the terms of the Advisory Agreement, you delegate proxy voting authority to a third party proxy voting service provider, Institutional Shareholder Services Inc. (“ISS”), which MSWM has engaged, at no cost to you, to vote proxies on your behalf. You may not delegate proxy voting authority to MSWM or any MSWM employee and we do not agree to assume any proxy voting authority from you.

If you expressly retain the right to vote proxies, we will forward to you any proxy materials that we receive for securities in your account. MSWM will not advise you on particular proxy solicitations. If ISS votes proxies for you, you cannot instruct them on how to cast any particular vote.

If you have delegated proxy voting authority to ISS, we will provide you, upon request, information as to how proxies were voted for your account during the prior annual period and ISS’s, relevant proxy voting policies and procedures (including a copy of their policy guidelines and vote recommendations in effect from time to time).

If you would prefer to retain the authority and responsibility to vote proxies for your account please contact Self Directed Support at 866-479-1844.

MSWM will not 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.

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

As the portfolio manager of your account assets in the Program, MSWM relies upon the information you provide to us as part of your Investor Profile, including information regarding your investment goal, financial information, risk tolerance and any reasonable restrictions you may impose on management of your account. This also includes information that you provide during the account opening process and throughout your relationship with us. It is your responsibility to promptly notify MSWM of any modifications to your Investor Profile or any investment restrictions you requested, and to give us prompt notice if you deem any investments made for the account to be inconsistent with such Investor Profile or investment restrictions.

We reserve the right to refuse to open an account for you if we do not, based solely on our judgment, receive the necessary information from you. Pursuant to the terms of the Advisory Agreement, you have represented to us that you are a U.S. resident. The Program is not offered to clients resident outside of the U.S. If you move out of the country you must notify us as soon as possible. Upon such occurrence, as soon as reasonably practicable upon notification, we will terminate your Advisory Agreement as well as any other applicable Account Documentation. We will transfer your account assets upon your instructions and then close your account. You have the

option of opening a brokerage account or other investment advisory accounts in other investment advisory programs we offer and transferring your assets to such an account.

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

In addition, if you hold other accounts with MSWM for which you receive investment services from a Financial Adviser or if you opened your Program account as a result of a referral by a Financial Adviser, such Financial Adviser will have access to certain information about your account, including your account balance.

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

You may contact us via email, through the Program’s dedicated website on the internet, the Program’s mobile application, or by calling Self Directed Support at any time during normal business hours at 866-479-1844.

## **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. “Citi” means Citigroup Inc., a former indirect part owner of Morgan Stanley.

- On May 12, 2020, the SEC entered into a settlement order with MSWM settling an administrative action which relates to certain information provided in marketing and client communications to retail advisory clients in MSWM’s wrap fee programs with third-party managers and MSWM’s policies and procedures related to trades not executed at MSWM. In the applicable wrap fee programs, the third-party manager has the discretion to place orders for trade execution on clients’ behalf at a broker-dealer other than Morgan Stanley. MSWM permits managers to “trade away” from MSWM in this manner in order to seek best execution for trades. The SEC found that, from at least October 2012 through June 2017, MSWM provided incomplete and inaccurate information indicating that MSWM executed most client trades and that, while additional transaction-based costs were possible, clients did not actually incur them in the ordinary course. The SEC found that this information was misleading for certain retail clients because some wrap managers directed most, and sometimes all, client trades to third-party broker-dealers for execution, which resulted in certain clients paying transaction-based charges that were not visible to them. The



SEC also found that, on occasion, wrap managers directed trades to MSWM-affiliated broker-dealers in which clients incurred transaction-based charges in violation of MSWM's affiliate trading policies without detection by MSWM. The SEC noted in the order that it considered certain remedial acts undertaken by MSWM in determining to accept the order, including MSWM enhancing its disclosures to clients, implementing training of financial advisors, enhancing relevant policies and procedures, and refunding clients' transaction based charges paid to Morgan Stanley affiliates. The SEC found that MSWM willfully violated certain sections of the Investment Advisers Act of 1940, specifically Sections 206(2) and 206(4) and Rule 206(4)-7 thereunder. MSWM consented, without admitting or denying the findings and without adjudication of any issue of law or fact, to a censure; to cease and desist from committing or causing future violations; and to pay a civil penalty of \$5,000,000.

- 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 Self Directed Support.

## 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 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: (a) securities underwriting, distribution, trading, merger, acquisition, restructuring, real estate, project finance and other corporate finance advisory activities; (b) merchant banking and other principal investment activities; (c) brokerage and research services; (d) asset management; (e) trading of foreign exchange, commodities and structured financial products; and (f) 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).

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 these open-end investment companies, and has entered into selected dealer agreements with MSWM and affiliates. MSWM 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 U.S. 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 that they supervise.

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

- 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.

\$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.

You may obtain a copy of the Code by contacting Self Directed Support at 866-479-1844.

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

## **Reviewing Accounts**

In order to open an account under the Program and access your account through the Program's website and mobile application, you will be required to set up an online profile, including a login and password. Because of the digital nature of this platform, MSWM has established several layers of "Know Your Customer" and cybersecurity controls that are utilized during the account opening, approval and funding process as well as throughout the life of your account.

In addition, as you progress through the online account opening process, you will be prompted with comprehensive disclosures to assist you in providing the appropriate information we require to create your Investor Profile, understanding the Program's services and features, and determining whether the Program is appropriate for your investment goals and financial situation. Depending upon the type of information you provide to us as part of your Investor Profile, you may also be required to agree to certain attestations as you progress through the online account opening process.

For all accounts opened under the Program, on a periodic basis, supervisors in the Self Directed Support branch, as well as our compliance and risk departments, will conduct reviews of clients whose Investor Profile or account activity may require additional oversight or client communication.

## **Client Referrals and Other Compensation**

MSWM does not compensate third parties for referrals to the Program. *See "Payments from Investment Managers" and "Payments from Mutual Funds" in Item 6.C above.*

## **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