

Morgan Stanley

Points on Recent Market Development

In response to the news from money market fund provider *The Reserve* that one of their money market funds “broke the buck” yesterday, below are a few key points for client discussion. In the case of yesterday’s event, the Reserve Primary Fund’s NAV was at \$0.97 at the close of business on September 16, 2008. The NAV decline resulted from the value of debt securities it held issued by Lehman Brothers Holdings, Inc. being marked from a face value of \$785 million to zero.

1. Strength of Morgan Stanley

- *MS is Uniquely Positioned to Succeed in This Challenging Environment:* The recent changes in the industry create significant opportunities. Enormous capacity has been removed from the market, creating opportunities for MS to gain market share. With a strong balance sheet, MS is well positioned to realize future earnings opportunities.
 - The Firm maintained strong liquidity and capital positions in the 3rd quarter ending 8/31/08, with average total and parent liquidity of \$175 billion and \$81 billion, respectively
 - Strong 3Q08 financial performance: net revenues were \$8.0Bn (+1% YoY), net income of \$1.4Bn (-3% YoY) and ROE of 16.5% (vs. 17.2% year ago)
- *As Industry Leader, MS Has a Critical Role to Play In These Turbulent Markets:* After being selected last month to advise the U.S. Treasury on the Fannie Mae and Freddie Mac situation, this weekend MS continued to play a leadership role in working with a consortium of commercial and investment banks on a series of initiatives to help stabilize the financial markets and provide additional liquidity.
- *MS is Focused on Executing Its Business and Serving Its Clients:* MS remains focused on building its business by using its unique position in the market to help clients navigate these challenging markets.

2. Segregation of Assets

With regard to Morgan Stanley Investment Management’s Money Market Funds, it is important to note that the Funds are separate stand alone investment companies with independent boards of directors/trustees and assets are held in separate segregated accounts for each Fund at a custodian bank (in the case of the Morgan Stanley Funds plc at State Street Bank & Trust Co). Within ring-fenced accounts for each Fund at an independent custodian, investments within our money market funds remain separate from the assets of Morgan Stanley and its subsidiaries. Client assets in our money market funds can not be commingled at any time with assets of Morgan Stanley or its subsidiaries.

3. Integrity of Net Asset Value (NAV):

The Morgan Stanley Institutional Liquidity Funds continue to function as designed by maintaining a stable NAV of \$1.00 per share. The Funds remain committed to their investment objective of preservation of capital and liquidity. As is common industry practice, the Funds value securities using the amortized cost method of valuation. Pursuant to procedures adopted by the Board, the relationship between each portfolio’s amortized cost value per share and a net asset value per share is calculated at least weekly on a mark to market basis.

Procedures are in place to ensure there is action taken prior to a portfolio deviating by 0.5% (\$0.005). In accordance with those procedures, the Trustees of the Funds are notified at a deviation of \$0.0025, and the Board is notified at \$0.0035. At this point, we commence calculating a monitored price on a mark to market basis until the deviation is reduced below \$0.0035. If a deviation of \$0.005 occurs, the Board is notified again and must promptly consider what action, if any, should be taken.

In the event that a security were to become ineligible in the Funds, Morgan Stanley would consider whether it continues to present minimal credit risk, or whether we should sell the security into the market or acquire it ourselves at amortized cost, although we are not required to do so.