Morgan Stanley

Strategic Equity Portfolios – STEP

While many types of investments remove you from the actual buy and sell decisions, we would like to introduce you to a method that provides you, the investor, with both ultimate control and transparency.

The Morgan Stanley Strategic Equity Portfolio (STEP) program is a dynamic investment process that gives you all the advantages of the research capabilities of our Firm and keeps you in control of your money. The STEP program consists of nine model portfolios representing nine different investment objectives. With the help of your Financial Advisor, you can choose one or more of these portfolios, and purchase all of the individual holdings in a single transaction at a reduced commission cost for traditional brokerage accounts.

After the purchase, you hold the securities in your account and they appear on your statement individually. The Global Wealth Management Portfolio Strategy Team monitors the model portfolios based on the expert knowledge of our equity research analysts and strategists. From time to time, your Financial Advisor will inform you of recommended changes in the portfolio based on the Portfolio Strategy Team's input.

> **The Strategic Equity Portfolio (STEP) Monthly offers you timely updates.**

All buy and sell decisions remain with you. You can choose to follow all recommendations or none, based on your unique circumstances. To help you make the best decisions possible, your Financial Advisor can provide in-depth research reports published by the Portfolio Strategy Team. The STEP Monthly offers you timely updates. Several times a year, you can read an in-depth report focusing on the specifics of each model portfolio. And on an ongoing basis, when conditions warrant, the Portfolio Strategy Team will update the models and release a change recommendation report that contains their reasoning for the change. You can then decide whether or not to follow the recommended changes.

BENEFITS OF STEP

Professional stock selection and monitoring: The portfolios are overseen by the Global Wealth Management Portfolio Strategy Team, which draws upon the expertise of Morgan Stanley's industry analysts, strategists and economists worldwide.

Diversification: The portfolios are diversified by the number of stocks included and the multiple industries and sectors represented.

Flexibility: Once you select and purchase the holdings of the STEP model portfolio, you maintain control over the buying and selling decisions of the individual securities within your account.

Value: You can purchase a complete portfolio of individual securities with a single transaction, discounted in a regular brokerage account.

Guidance: The STEP process helps you maintain a close relationship with your Morgan Stanley Financial Advisor as research updates and change recommendations are made to the portfolios.

HOW DOES THE PROCESS WORK?

Strategic Equity Portfolios are structured and monitored on an ongoing basis by members of Morgan Stanley's STEP Stock Selection Committee and may be purchased in a single transaction as individual stocks.

Periodically, changes to the portfolios are recommended by the Global Wealth Management Portfolio Strategy Team; you then decide whether the recommendation makes sense for your particular financial situation.

Strategic Equity Portfolios are structured and monitored on an ongoing basis.

After you purchase the STEP, the same stocks will remain in your account unless individual stocks are bought or sold in response to subsequent changes in the model STEP or as otherwise individually determined by you.

You should seek advice from your Morgan Stanley Financial Advisor as to the suitability of your investing in any of the securities or investment strategies discussed here.

Diversification does not guarantee a profit or protect against a loss.

TYPES OF AVAILABLE STEPS

US Model Portfolio—Based on key ideas from our U.S. Strategy team and Morgan Stanley's broad base of equity research analysts.
- Benchmark: S&P 500

Value—Seeks to identify undervalued companies based on measures like their book value/price, cash flow/price, and dividend yield.
- Benchmark: S&P/Citigroup Value Index

Dividend—Two-fold mandate: high quality earnings and high dividend yield.
- Benchmark: S&P 500 Index

Growth "Stable-growth," primarily large-cap companies that are market leaders.
- Benchmark: S&P/Citigroup Growth Index

Glocal—US-based companies that are leaders in global markets.
- Benchmark: S&P 500 Index

Core Global—Direct exposure to individual companies throughout the world.
- Benchmark: MSCI All Country World Index

International—Closed-end country funds and/or index-linked funds that invest outside the U.S.
- Benchmark: MSCI All Country World ex-US Index

Municipal Income—Closed-end municipal bond funds offering high income that is exempt from federal taxes.
- Benchmark: Thomson Closed-End Muni Market Price Index

Taxable Income—Closed-end taxable bond funds that provide above-average current income.
- Benchmark: Thomson Closed-End Taxable Fixed-Income Market Price Index

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NY CS 5544344 04/07-SBD
CLF# 80940