

Morgan Stanley

Bank of America Merrill Lynch 2010 Banking and Financial Services Conference

Gregory J. Fleming, President of MSIM and Global Research

November 16, 2010

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Agenda

- MSIM Overview
- Asset Management Environment
- The New MSIM

MSIM Overview

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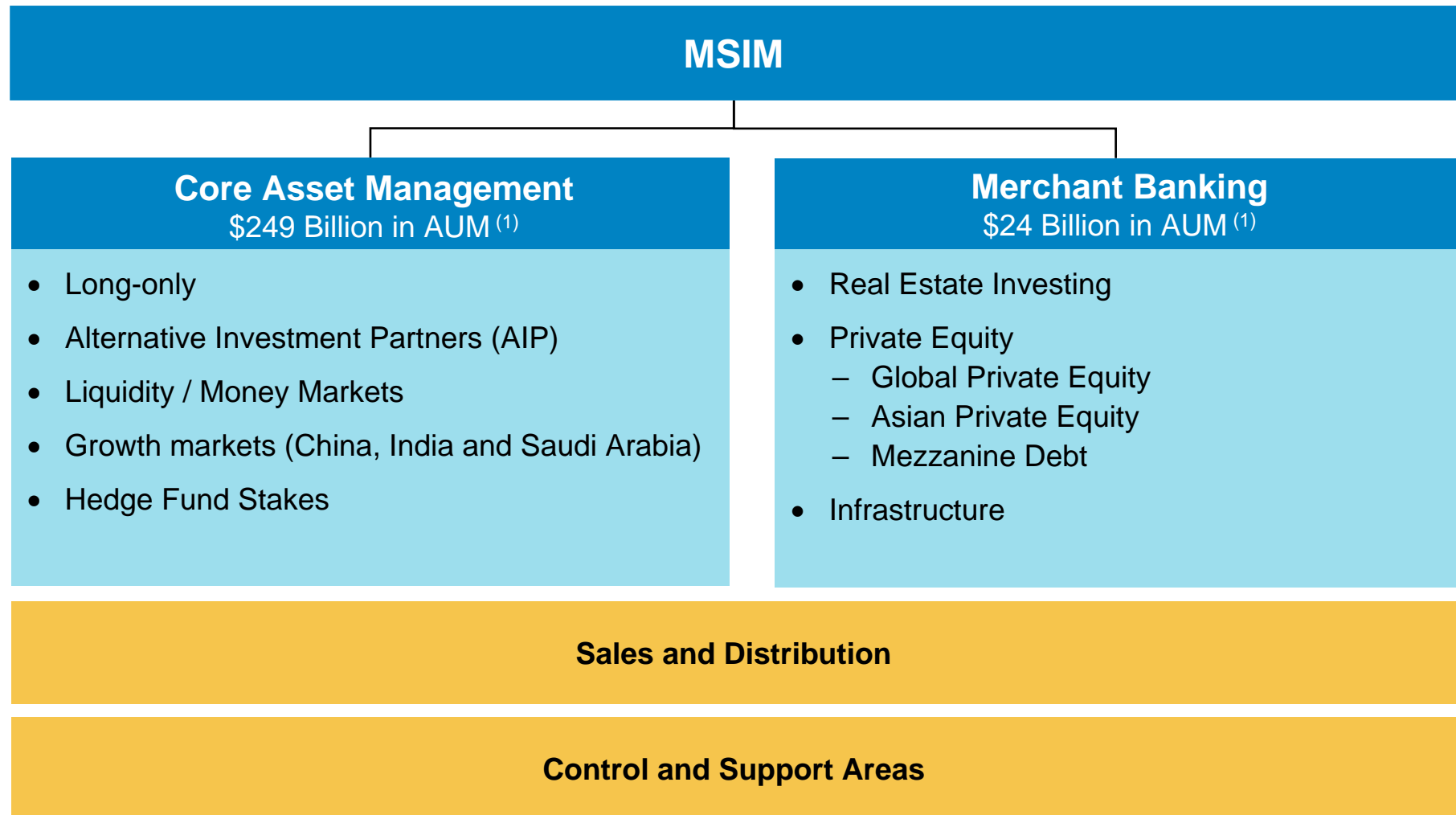
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MSIM Overview

MSIM: Morgan Stanley Investment Management

- Objective: Manage money on behalf of clients
- Clients
 - Institutions
 - Includes Sovereign Wealth Funds, Central Banks, Public Pensions, Endowments, Private Pensions, Financial Institutions, Corporations, Trusts
 - Intermediaries / Individuals
 - Includes MSSB, Brokers, Banks / Private Banks, Insurers, Sub-Advisory
- \$273 billion in AuM⁽¹⁾

MSIM – Business and Support lines



Core Asset Management Competitive Strengths

Long-Only

- Long tenured Portfolio Managers who want to build out the investment culture
- 70%+ of investment strategies outperform respective benchmarks over 3, 5, and 10 years ⁽¹⁾

AIP

- Portfolio construction and Hedge Fund customization capabilities
- Top quartile Private Equity track record ⁽²⁾

Liquidity

- Morgan Stanley brand and global footprint supports cross-selling
- Products include U.S., European and Asian vehicles as well as Institutional and Retail products

Growth Markets

- Top quartile performance ⁽³⁾

Source:

(1) Perflink.

(2) Cambridge Associates, Fund of Funds and Secondaries Benchmark Statistics, December 2009.

(3) Morningstar, CRISIL S&P, Tadawul.

Merchant Banking Competitive Strengths

Real Estate

- Significant dry powder to deploy across various opportunistic and core funds
- Funds across the risk / return spectrum
- Global footprint

Private Equity

- Experienced and cohesive team of investment professionals
- Integrated team of operating partners; differentiated insights during due diligence
- Established footprint in key geographic markets
- Morgan Stanley platform provides acquisition pipeline

Infrastructure

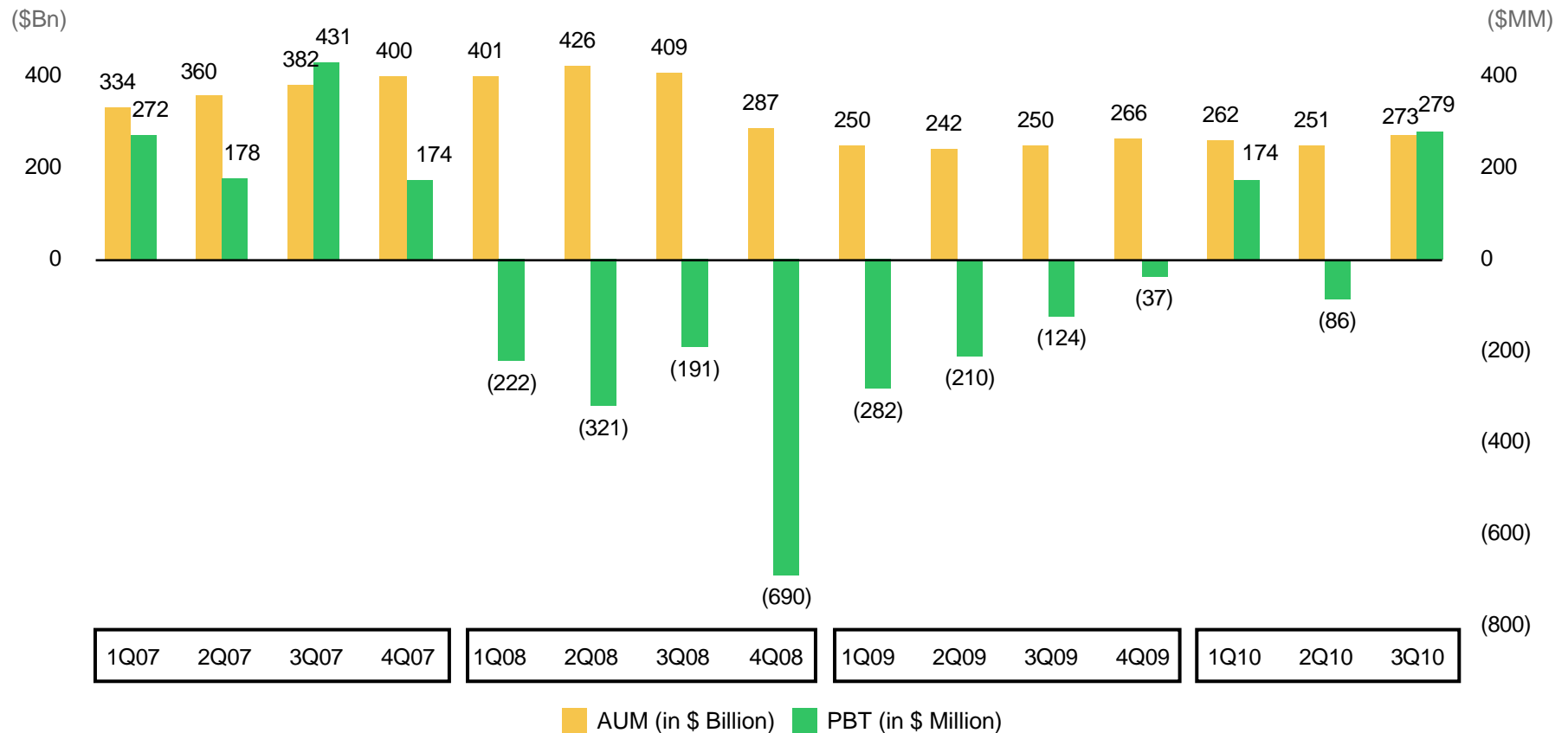
- Well-positioned in the market vs. competitors
- Strategy allows platform to capture pricing inefficiencies across markets and assets

MSIM Challenges

- During financial crisis experienced significant negative impact to revenue and AUM
- Periods of net fund outflows
- Ineffective sales effort and consultant relations
- Strategy gaps and challenges in certain key areas
- Run as a “community of boutiques” – silos did not leverage Morgan Stanley platforms or strengths with clients

MSIM Performance Stabilizing

MSIM AUM and PBT ⁽¹⁾ – 1Q 2007 – 3Q 2010



Source:

Morgan Stanley SEC Filings. Historical MSIM AUM and PBT (excludes sold retail asset management business). Results are for Fiscal Year 2007 and 2008 and Calendar Year 2009 and 2010.

(1) PBT: including Non-Controlling Interest.

Asset Management Environment

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Overview of Trends in Asset Management Industry

Asset Management Landscape Is Changing

Product demands are evolving

- Demographic shifts
- Increased investor focus on liquidity following the credit crisis
- Beta commoditization; hunger for alpha / excess returns

Distribution is also evolving

- Mega-client opportunities (SWFs, Central Banks, Large Pension Funds)
- Increased usage of separately managed accounts
- Consolidation of brokerage distribution channels (MSSB, BAC-Merrill)

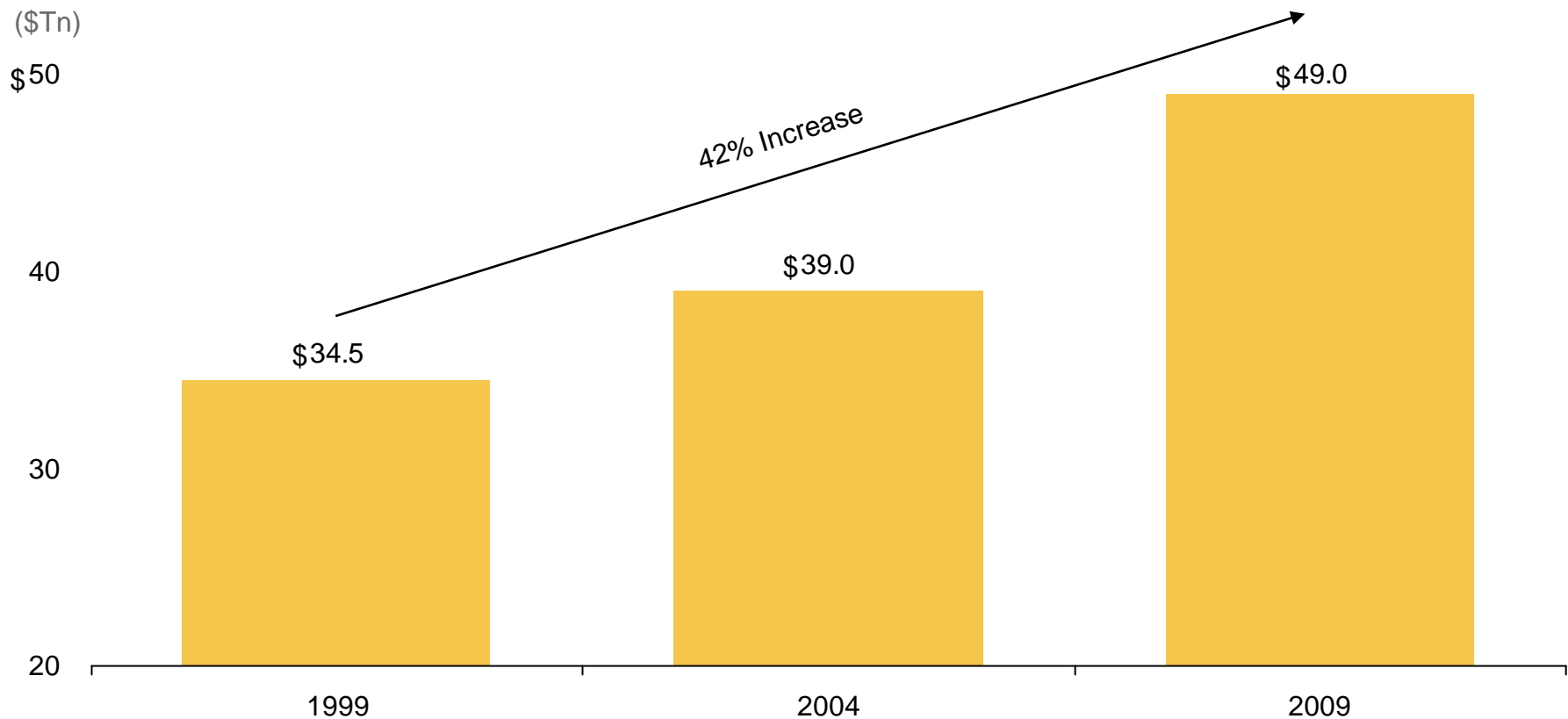
Changes in accounting rules and regulatory environment

- Compliance with Dodd-Frank and Volcker rule
- Increased investment in governance and risk management

Trends play to our strengths – Brand, Global Reach / Scale, MSSB, Relationships with Significant Investors, and Product Breadth

Global Industry AUM – 1999 – 2009

Despite Two Recessions, Global Industry Assets Under Management Have Increased by \$15 Trillion in the Last 10 Years

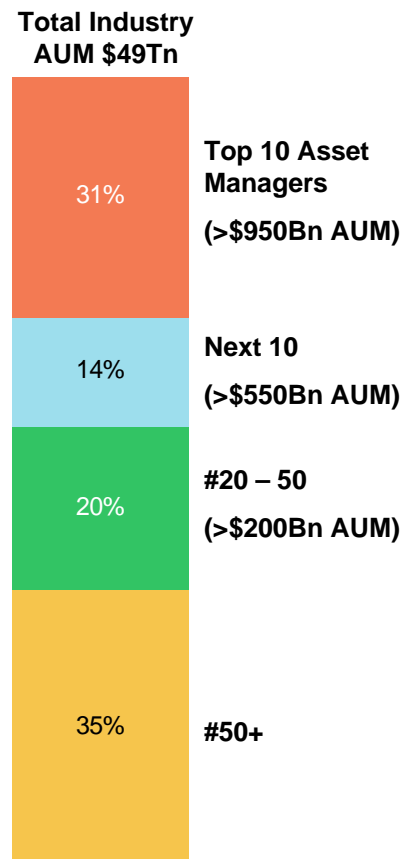


Source:
Cerulli Quantitative Update: Global Markets 2010, 2005

Fragmented Industry

MSIM Has a Large Opportunity to Gain Market Share – Currently at 0.5%

Concentration of Industry AUM – 2009



Top 10 Asset Managers by Global Assets Under Management, December 2009 ⁽¹⁾ (\$Bn)

Firm	2009 AUM
BlackRock	\$3,350
State Street Global Advisors	1,911
Allianz Global Investor	1,688
Fidelity Investments	1,338
Vanguard Group	1,300
JPMorgan Asset Management	1,249
AXA Group	1,211
The Bank of New York Mellon	1,100
Capital Group	975
Amundi Asset Management	960
	↙
Morgan Stanley Investment Management ⁽²⁾	\$260 ⁽²⁾

Source:

Cerulli Associates, Pension and Investments, Company Press Releases

(1) Some competitors include Private Banking / Private Client division in AUM.

(2) Excludes \$7 billion in minority stakes.

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Asset Management Valuation Premium

FIG Comparables ⁽¹⁾ Summary

As of September 3, 2010

Company	Price / Earnings		Price /		Op. Income Margin (%) ⁽²⁾	5-Yr Med. ROE / Cost of Equity (x) ^{(3) (4)}
	2010E (x)	2011E (x)	Book (x)	Tangible Book (x)		
 Asset Management	16.9	14.2	3.46	9.80	28.8	2.31
Trust Banks	13.2	11.3	1.34	2.62	28.9	1.18
Money Center Banks	11.6	8.5	0.77	1.14	21.7	0.54
Regional Banks	13.2	9.8	1.01	1.59	17.2	0.74
Securities Firms	14.5	10.5	1.56	1.76	25.9	1.29
Life Insurance	9.1	7.8	0.96	1.06	11.9	0.83
P&C Insurance	10.3	9.1	1.06	1.11	16.0	1.42
Diversified Financials	9.2	8.3	1.23	1.45	21.9	0.84

Source:
FactSet

(1) Figures represent average of indices.

(2) Based on Wall Street revenue and operating income estimates for 2010.

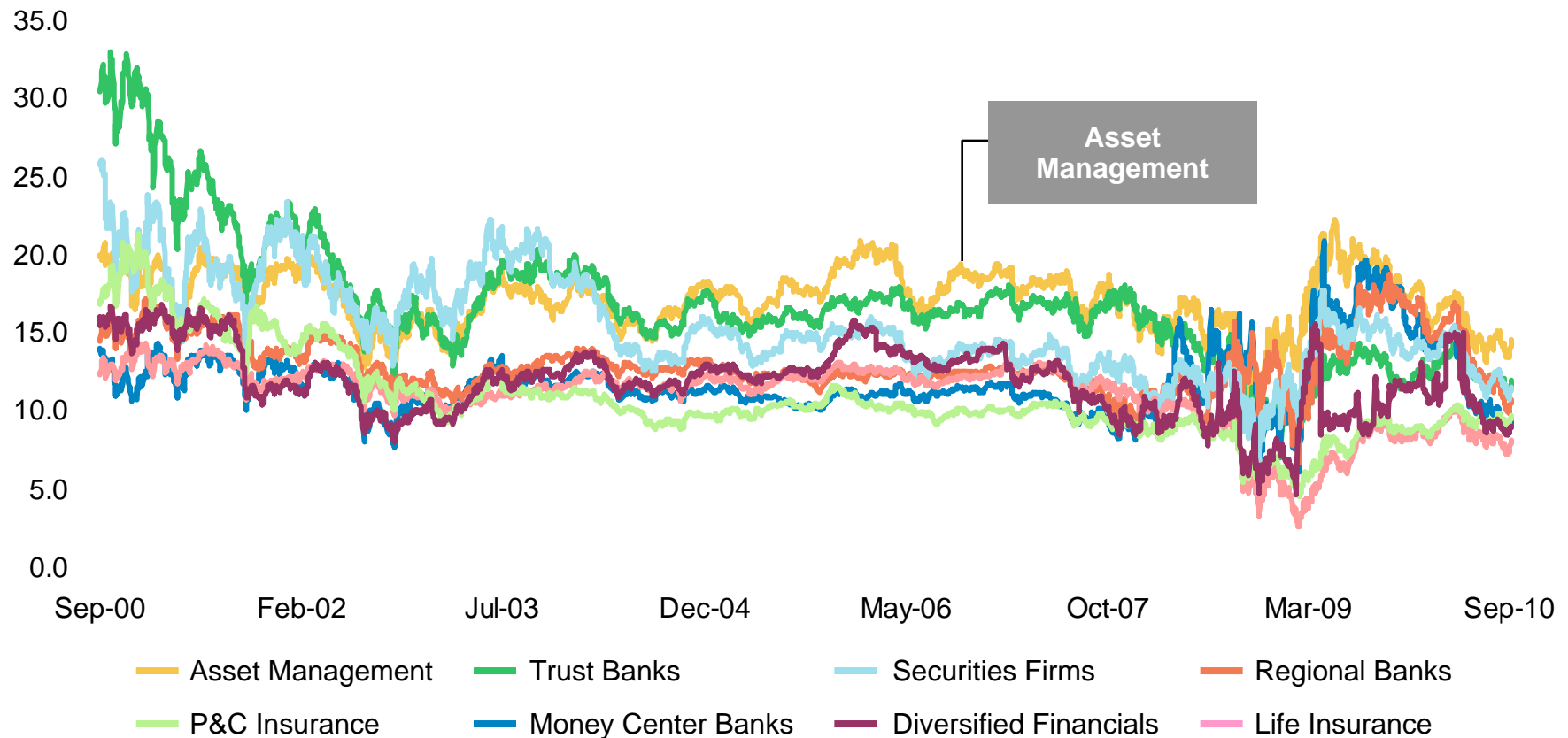
(3) 5-year median ROE calculated as median ROE of calendar quarters 2006 – YTD.

(4) Cost of equity calculated using: Berra predicted beta, assumes equity risk premium of 6% and a risk free rate of 4% (based on 5-year quarterly average of 10-Year Treasury yield).

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Valuation Premium Over Cycles

Next Twelve Months P/E 2000 – 2010



Source:
FactSet

Notes

1. Sector indexes are comprised of: **Asset Management:** AB, AMG, BEN, BLK, EV, FII, IVZ, LM, TROW, WDR; **Trust Banks:** BK, STT, NTRS; **Securities Firms:** GS, MS, RJF, SCHW; **Regional Banks:** BBT, COF, FITB, KEY, PNC, STI, USB, WFC; **P&C Insurance:** ALL, CB, CNA, HIG, PGR, TRV; **Diversified Financials:** ACAS, ACF, AXP, CIM, CIT, COF, CSE, DFS, KFN, MFA, NLY, NNI, PHH, RWT, SLM; **Money Center Banks:** BAC, C, JPM; **Life Insurance:** AFL, AMP, GNW, LNC, MET, PFG, PL, PRU, RGA, SFG, TMK, UNM

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The New MSIM

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Actions to Date

Significant Senior Management Recruiting and Repositioning

- Jeff Shames – Senior Advisor
- Ed Moriarty – COO for MSIM and Global Research
- Navtej S. Nandra – Head of MSIM International
- John Klopp and Olivier de Poulpiquet – Co-Heads of Real Estate Investing
- Sara Furber – COO for Long-only
- Jim Janover – Head of Risk Management, MSIM
- Lisa Jones – Global Head of MSIM Sales
- Jack O'Connor – Head of Sales, U.S. MSIM
- Paul Price – Head of Sales, MSIM International
- Chris Golio – Head of AIP North America Sales

Actions to Date

Achieve Stability, Build Team, Define and Communicate Strategy

- Closed Invesco Transaction – June 1, 2010
- Restructuring relationship with FrontPoint
- Created and/or strengthened management committees for each business area to improve communication and transparency
 - Balancing existing management talent and new hires
- Enhanced governance processes to focus on strategy of individual businesses
- Tightened focus on business and financial performance
- Conducting frequent global and regional town halls to reinforce investment culture
- Crystallized and communicating strategy to various constituencies

Core Asset Management Strategy

- Create a globally integrated business model that is best in class
 - Investment Performance
 - Sales and Distribution
 - Client Service
 - Control and Support
 - Operating Performance
- Increase visibility of MSIM capabilities and superior performance with clients, consultants, and within Morgan Stanley
- Better leverage restructured salesforce and Morgan Stanley franchise
- Opportunistically and selectively fill in gaps and expand strategies – always prioritizing consistency with culture
- Take advantage of the scalability of the business to capture its profit potential

Merchant Banking Strategy

- Assess each platform and develop specific strategies and structures in line with market and regulatory environment
- Dodd-Frank and Volcker provide bright lines for efficient use of capital, consistent with our strategic aspirations
- Achieve scale where we have targeted opportunity and competitive differentiation
- Ensure optimal use of Morgan Stanley network for deal sourcing and industry insights
- Real Estate
 - John Klopp and Olivier de Poulpiquet installed as new Co-CEOs and Co-CIOs of Real Estate
 - Improvement in results with stabilizing / higher investment valuations and fewer operational incidents generating losses
 - Continued focus on managing existing funds' investments
 - Actively pursuing new investments for MSREF G7 and other funds

Principal Investments and FrontPoint Restructuring

- We are reviewing in detail all of our principal investments including hedge fund stakes with a goal to thoughtfully free up capital, balancing for commitments, timing, and returns
- Key criteria include performance, differentiation, scalability, synergy across divisions of Morgan Stanley and return on capital
- Decision to recommend restructuring our FrontPoint ownership resulted from this detailed review of all the businesses and various stakes within MSIM

Timeline

Action	2010	2011	2012	2013+
Finish Assessing and Restructuring Underperforming Businesses	■			
Rebuild Sales and Client Service	■	■		
Drive Earnings Growth			■	■
Achieve Market Leader Status				■



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