This information is being made available as a result of an Order entered into between the SEC and certain active broker-dealers in the auction rate securities market including Morgan Stanley & Co. LLC ("Morgan Stanley").

An Overview of the Auction Rate Securities Market

Auction Rate Securities ("ARS") are municipal bonds, corporate bonds, and preferred stocks with interest rates or dividend yields that are periodically re-set through auctions, typically every 7, 14, 28, or 35 days. ARS are usually issued with long-term maturities or in perpetuity. From an issuer's perspective, ARS are an alternative to variable rate financing vehicles. From an investor's perspective, ARS are a short-term investment alternative. Auction rate securities were first developed in 1984, and the auction rate securities market has grown to well over $200 billion. Institutions and individuals participate in the ARS market. Typically, the minimum investment in ARS is $25,000.

ARS are auctioned at par. Thus, the return on the investment to the investor and the cost of financing to the issuer between auction dates is determined by the interest rate or dividend yield set through the auctions. The interest rate or dividend yield is set through an auction (commonly referred to as a "Dutch" auction) in which bids with successively higher rates are accepted until all of the securities in the auction are sold. The final rate at which all of the securities are sold is the "clearing rate" that applies to all of the securities in that particular auction until the next auction.

A. Re-Marketing/Service Fees

For many ARS, Morgan Stanley has been appointed by the issuer of the securities to serve as a dealer in the auction and is paid by the issuer for its services. Specifically, Morgan Stanley receives a remarketing or service fee from the issuer based on a percentage of the principal amount of securities sold or placed through Morgan Stanley. As a result, Morgan Stanley's interests in conducting an auction may differ from those of investors who participate in auctions. Morgan Stanley may share a portion of such fees with other broker-dealers that submit orders through Morgan Stanley that Morgan Stanley places in the auction. Additionally, another auction dealer may share with Morgan Stanley a portion of the fees it receives from an issuer when that dealer submits orders for Morgan Stanley (on behalf of Morgan Stanley or its customers) into auctions in which Morgan Stanley does not serve as a dealer.

B. Broker-Dealers' Role in Auctions

General

The issuer of each ARS selects one or more broker-dealers to underwrite the offering and/or manage the auction process. Investors can only access the auctions by submitting orders to buy, hold or sell ARS through these selected broker-dealers. The issuer also selects an auction agent to collect the orders and determine the clearing rate for the ARS. The selected broker-dealers submit all orders to the auction agent by the time specified in the auction procedures.

Price Talk

Before the start of an auction, Morgan Stanley may, in its discretion, make available to existing holders and potential holders Morgan Stanley's good faith judgment of the range of likely clearing rates for the auction based on market and other information. This is typically referred to as Price Talk. Price Talk is not a guarantee, and existing holders and potential holders are free to use it or ignore it. Morgan Stanley may occasionally update and change the Price Talk based on changes in issuer credit quality or other economic factors that are likely to result in a change in interest rate levels.

Submission Deadline

Each particular auction has a formal time deadline by which all bids must be submitted by Morgan Stanley to the auction agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer bids to the auction agent before the Submission Deadline, Morgan Stanley imposes an earlier deadline — called the "Internal Submission Deadline" — by which bidders must submit bids to Morgan Stanley. On a regular trading day, the Internal Submission Deadline will be 11:00 a.m. New York time for daily auctions and 12:00 noon for all other auctions. On any day for which the Securities Industry and Financial Markets Association has recommended an early market close, the Internal Submission Deadline will be 10:30 a.m. for all auctions. The Internal Submission Deadline is subject to change by Morgan Stanley; any changes will be posted on Morgan Stanley's internet portal. Morgan Stanley may submit bids for its own account at any time until the Submission Deadline. Some auction agents allow for the correction of clerical errors for a certain period after the Submission Deadline.

Types of Orders

Investors in ARS may submit the following types of orders to Morgan Stanley:

- a "hold" order, when a current investor will keep the securities at the rate at which the auction clears;
- a "deemed hold" order, which is the default order for current investors who cannot be contacted (i.e., the order that is entered for a current holder if the holder takes no action), where a current investor will keep the securities at the rate at which the auction clears;
- a "hold-at-rate" bid, where a current investor may keep the securities if the clearing rate is at or above the rate specified by the investor;

- a “sell” order, where a current investor wishes to sell the securities regardless of the clearing rate; or

- a “buy” bid (sometimes referred to as a “new” bid), where a prospective investor, or a current investor who wishes to purchase additional securities, may buy securities if the clearing rate is at or above the rate specified by the investor.

Morgan Stanley will not accept open or market bids for ARS. Investors with nondiscretionary accounts who wish to submit bids in an auction through Morgan Stanley must, at minimum, identify the security they wish to purchase, the auction in which they wish to participate, the amount to be invested (in accordance with any minimum denomination requirements) and the rate they wish to bid in the auction. Investors with nondiscretionary accounts who do not submit such information will not be permitted to submit a bid in the auction through Morgan Stanley. Such investors may indicate their desire to purchase ARS in the secondary market, if available.

Once the minimum information is submitted to Morgan Stanley and the Internal Submission Deadline passes, the bid cannot be changed and is irrevocable. Thus, Morgan Stanley will not accept “all-or-nothing” bids – i.e., bids in which the investor indicates that they will reject an allocation from the auction that is less than the entire quantity bid. Nor will Morgan Stanley accept any other type of bid that is conditioned or contingent upon the result of the auction or that otherwise attempts to allow the bidder to avoid auction procedures, such as the pro rata allocation of securities.

Bidding by Broker-Dealer

Morgan Stanley is permitted, but not obligated, to submit orders in auctions for its own account either as a bidder or a seller and does so in its sole discretion. If Morgan Stanley submits an order for its own account, it likely has an advantage over other bidders because Morgan Stanley would have knowledge of some or all of the other orders placed through Morgan Stanley in that auction, and thus could determine the rate and size of its order so as to ensure that its order is likely to be accepted in the auction and/or the auction is likely to clear at a particular rate. For this reason, and because Morgan Stanley is appointed and paid by the issuer to serve as a broker-dealer in the auction, Morgan Stanley’s interests in conducting an auction may differ from those of existing holders and potential holders who participate in auctions. Morgan Stanley would not have knowledge of orders submitted to the auction agent by any unaffiliated broker-dealers.

a. Bidding with Knowledge

Morgan Stanley may place one or more bids in an auction for its own account to acquire ARS for its inventory, to prevent a failed auction or to prevent an auction from clearing at a rate that Morgan Stanley believes is higher than the market for similar securities at the time it makes its bid. Morgan Stanley may place such bids even after obtaining knowledge of some or all of the other orders submitted through it.

(i) Failed Auction/Maximum Rate

A failed auction is an auction during which the auction agent does not receive sufficient orders at or below the maximum rate (the "Maximum Rate") to purchase all the ARS being sold and the rate on the ARS is set at the Maximum Rate. The Maximum Rate is the rate specified in the relevant documents and is often a multiple of reference rates, such as LIBOR or an index of Treasury securities, or a specified percentage rate. Holders may be disadvantaged if there is a failed auction because they are not able to exit their position through the auction.

(ii) Bidding to Prevent ARS from Clearing at Rate Different than Market Rates

Morgan Stanley may bid in auctions to prevent auctions from clearing at a rate that Morgan Stanley believes is different than the market for similar securities. Morgan Stanley may place such bids even after obtaining knowledge of some or all of the other orders submitted through it.

Morgan Stanley also may encourage bidding by others in auctions, which may include to prevent a failed auction or an auction from clearing at a rate that Morgan Stanley believes does not reflect the market for the auction rate securities. Morgan Stanley may encourage such bids even after obtaining knowledge of some or all of the other orders submitted through it.

b. Morgan Stanley Bidding and Price Talk

When bidding for its own account, Morgan Stanley may bid outside or inside the range of rates that it provides as its Price Talk.

c. ARS held by Morgan Stanley

If Morgan Stanley holds ARS for its own account on an auction date, Morgan Stanley may submit a sell order into the auction with respect to such ARS.

d. Consequences of Bidding by Morgan Stanley

Bids by Morgan Stanley are likely to affect (i) the rate on ARS — including preventing the rate from becoming the Maximum Rate or otherwise causing bidders to receive a higher or lower rate than they might have received had Morgan Stanley not bid and (ii) the allocation of ARS being auctioned — including displacing some bidders who may have their bids rejected or receive fewer ARS than they would have received if Morgan Stanley had not bid. Because of these practices, the fact that an auction clears successfully does not mean that an investment in the ARS involves no significant liquidity or credit risk. Morgan Stanley is not obligated to bid in any auction to prevent an auction from failing or clearing at an off-market rate. Investors should not assume that Morgan Stanley will do so.

C. Bidding by Issuer/Conduit Borrower

Issuers of municipal auction rate securities ("Municipal Issuers") may submit bids in auctions for their own securities. Similarly, conduit borrowers ("Conduit Borrowers") may also submit bids in auctions for municipal auction rate securities that are payable from amounts due from the Conduit Borrower. Municipal Issuers and/or Conduit Borrowers generally prefer to pay a lower interest rate on their auction rate securities, while other bidders seek to obtain a higher interest rate. When Municipal Issuers or Conduit Borrowers place bids in an auction, the auction is likely to result in a lower clearing rate.

Morgan Stanley expects a Municipal Issuer or Conduit Borrower, as the case may be, before submitting a bid, to disclose in writing ("Notice of Intent") a minimum of two business days in advance of the auction date: (i) its intention to bid in an auction; (ii) the interest rate(s) and amount(s) of municipal auction rate securities that will be bid for; and (iii) the Post Auction Disclosures (see below) from the immediately preceding auction. If the Municipal Issuer or the Conduit Borrower intends to bid for substantially all of the securities outstanding (e.g., 90%), Morgan Stanley expects they will additionally disclose the steps they are taking to permit any remaining holders to sell their securities to the Municipal Issuer or Conduit Borrower, including the price at which such securities will be purchased.

Following an auction in which Municipal Issuers or Conduit Borrowers have bid for their own securities, Morgan Stanley expects the Municipal Issuers and Conduit Borrowers to disclose ("Post-Auction Disclosures"), (i) the amount of securities for sale in the auction: (ii) the number and aggregate dollar amount of all bids made; (iii) the number of participating bidders (excluding the dealer(s) and the Municipal Issuer or Conduit Borrower); (iv) the clearing rate; (v) the high, low and median bids received; and (vi) any steps taken to avoid an auction leading to a below market clearing rate.

Information regarding the municipal auctions in which Issuers and/or Conduit Borrowers have indicated an intent to bid for their own securities through Morgan Stanley, as well as the Notice of Intent and Post Auction Disclosure that have been provided to Morgan Stanley, may be accessed via the following link.

"Auctions in which Issuers/Conduit Borrowers intend to bid"

D. <u>All Hold Auctions</u>

In any particular auction, if all outstanding ARS are the subject of hold orders (an "All Hold Auction"), the rate for the next succeeding distribution period will be the minimum rate specified in the relevant documents; this is typically a percentage of a reference rate, usually LIBOR or an index of Treasury securities. This percentage usually produces a rate which is materially below a market rate (the "All Hold Rate"). Investors are always free to specify a rate when wishing to hold ARS. When an All Hold Auction is likely, Morgan Stanley may, but is not obligated to, advise existing holders of that fact. This might facilitate the submission of bids by existing holders and that would avoid the occurrence of an All Hold Auction. If Morgan Stanley decides to inform existing holders of the likelihood of an All Hold Auction, it will make that information available to all existing holders at the same time.

E. <u>No Assurances Regarding Auction Outcomes</u>

Morgan Stanley provides no assurance as to the outcome of any auction. Nor does Morgan Stanley provide any assurance that any bid will be accepted or that the auction will clear at a rate that a bidder considers acceptable. Bids may be rejected or may be only partially filled, and the rate on any ARS purchased or retained may be lower than the bidder expected.

F. <u>Auction Periods</u>

For some programs, the issuer – with sufficient notice to current holders – may change the auction reset period. In such a program, the issuer of ARS may change the length of the next auction period during any auction period.

G. <u>Auction Agent's Role in Auctions</u>

After receiving the orders from Morgan Stanley and other broker-dealers (if the issuer has selected more than one broker-dealer for the ARS) the auction agent calculates the clearing rate that will apply until the next auction. In practice, however, when Morgan Stanley is the only broker-dealer, it can discern the clearing rate before submitting the orders to the auction agent.

The auction agent allocates the ARS to the broker-dealers based on the orders they submitted. Orders are typically filled as follows:

- hold orders;
- hold-at-rate and buy bids (buy bids are sometimes referred to as new bids) with a rate below the clearing rate;
- hold-at-rate orders with a rate at the clearing rate;
- and buy bids (sometimes referred to as new bids) with a rate at the clearing rate.

Once the clearing rate is determined, the auction agent notifies the issuer's paying agent and the broker-dealers. Orders above the clearing rate are not filled in the auction.

H. Secondary Trading Market

Morgan Stanley has no obligation to maintain a secondary trading market in auction rate securities between predetermined auction periods. There can be no assurance that a secondary market for these securities will develop or, if it does develop, that it will provide holders the ability to resell auction securities in the secondary market on the terms or at the times desired by a holder. Morgan Stanley may, in its own discretion, decide to buy or sell auction rate securities in the secondary market for its own account to or from investors at any time and at any price, including at prices equivalent to, below, or above the par value of the securities. Although Morgan Stanley buys and sells auction rate securities for its own account in the secondary market, it has no obligation to do so and may discontinue such trading at any time without notice.