

## UBS Conference

May 14, 2007

# Notice

The information provided herein may include certain non-GAAP financial measures. The reconciliation of such measures to the comparable GAAP figures are included in the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on 8-K, including any amendments thereto, which are available on [www.morganstanley.com](http://www.morganstanley.com).

This presentation may contain forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made, which reflect management's current estimates, projections, expectations or beliefs and which are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of risks and uncertainties that may affect the future results of the Company, please see "Forward-Looking Statements" immediately preceding Part I, Item 1, "Competition" and "Regulation" in Part I, Item 1, "Risk Factors" in Part I, Item 1A, "Legal Proceedings" in Part I, Item 3, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2006, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk" in the Company's Quarterly Report on Form 10-Q for the Quarter Ended February 28, 2007 and other items throughout the Form 10-K and the Company's 2007 Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Morgan Stanley

Owen D. Thomas  
President, Investment Management

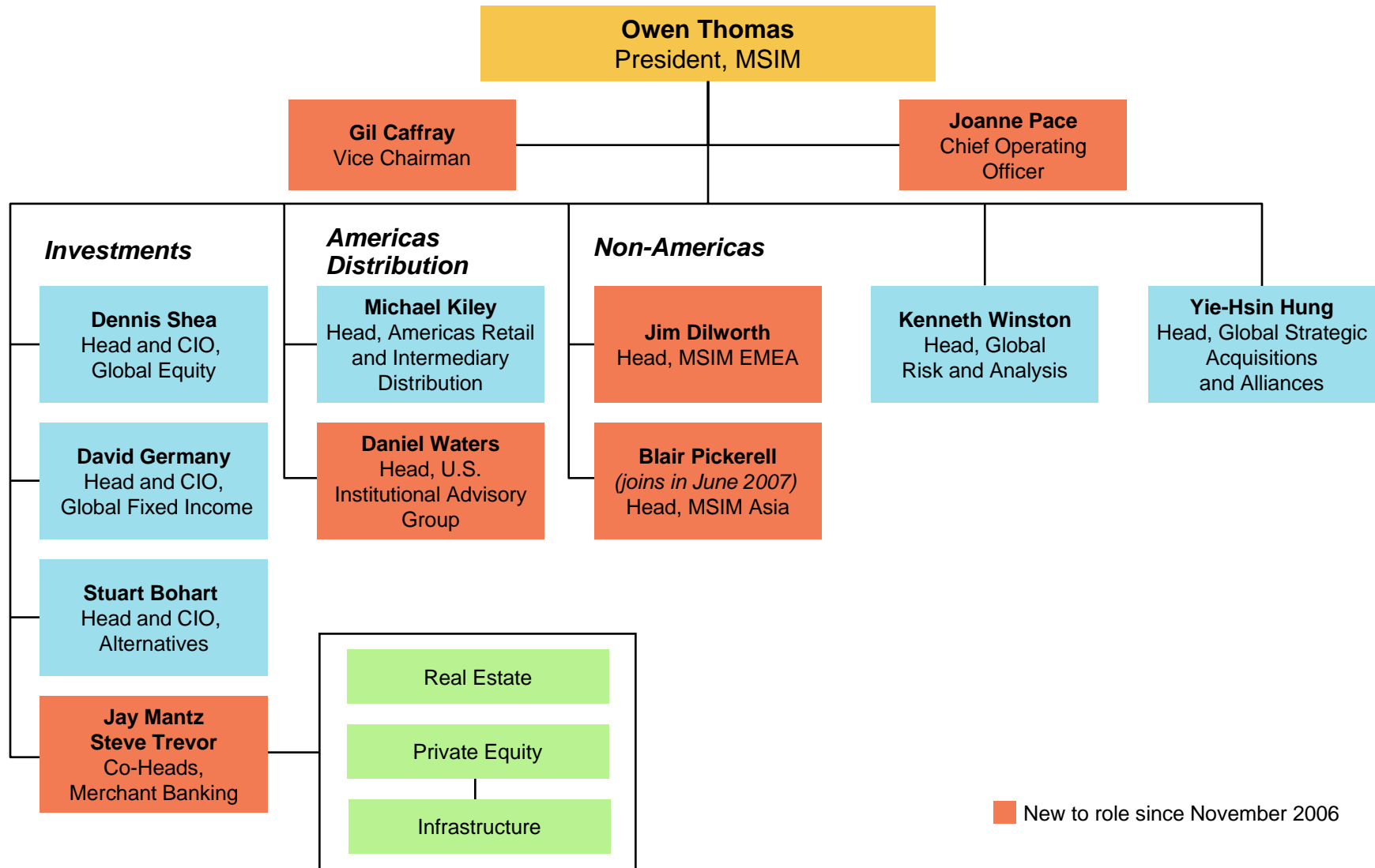
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# Agenda

## **Morgan Stanley Investment Management**

- Overview
- Growth Strategy and Critical Initiatives
- Real Estate
- Private Equity
- Non-U.S. Business
- Measuring Our Progress

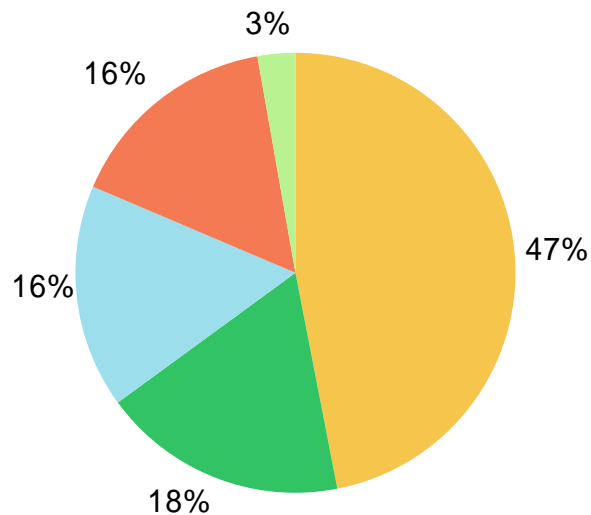
# The Right People in the Right Place



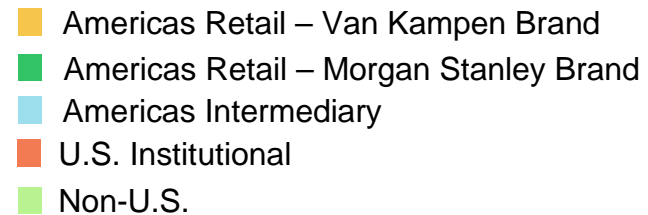
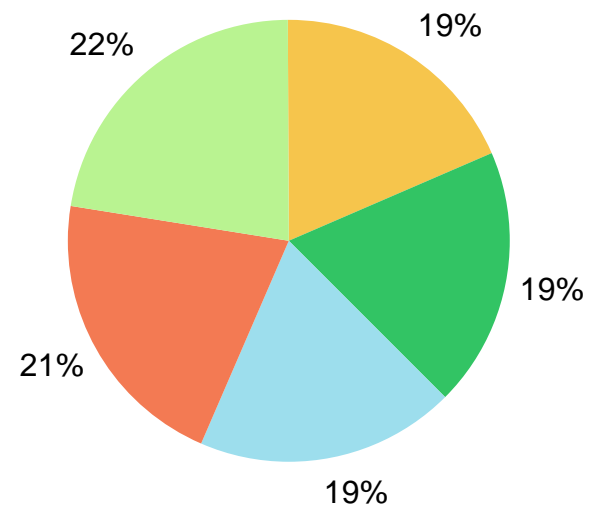
# MSIM Product and Distribution Balance

Adjusted 1Q 2007 Ending AUM/AUS = \$521 billion

Asset Category (1)



Distribution (2)

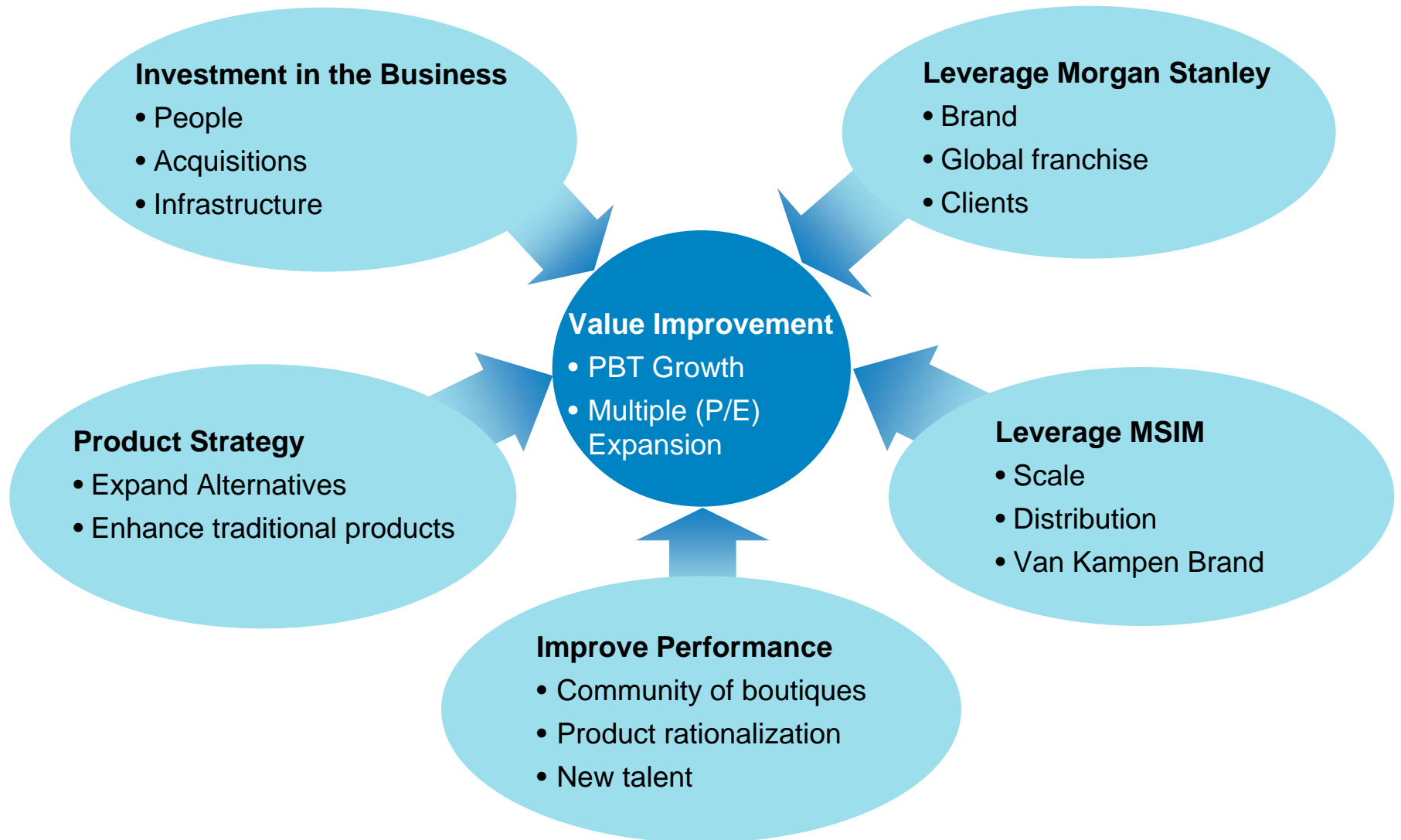


Source: Morgan Stanley  
Notes:

- (1) Alternatives includes alternatives, real estate, and share of minority interest assets previously disclosed on page 11 of Morgan Stanley's 1Q07 Financial Supplement, as well as real property assets under management net of the debt utilized to finance such assets. These assets were previously managed within Institutional Securities and disclosed on a gross basis (including debt) in Morgan Stanley's consolidated assets under management on page 12 of Morgan Stanley's 1Q07 Financial Supplement.
- (2) Sourced assets under management by distribution channel include institutional money markets/liquidity and retail money market assets.

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# MSIM Growth Strategy



# MSIM Critical Initiatives

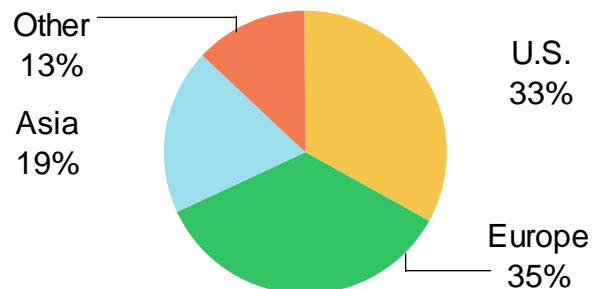
- **Build Merchant Banking business**
  - **Real Estate Funds**
  - **Private Equity and Infrastructure**
- **Expand non-U.S. footprint**
- Expand Alternatives capability
- Rebuild U.S. Institutional reputation and business
- Expand traditional products
  - Equity and Fixed Income
- Invest in Van Kampen and Americas Intermediary channels
- Reposition Morgan Stanley retail brand



# Real Estate – Market Opportunities

## Current Global Commercial Real Estate Value

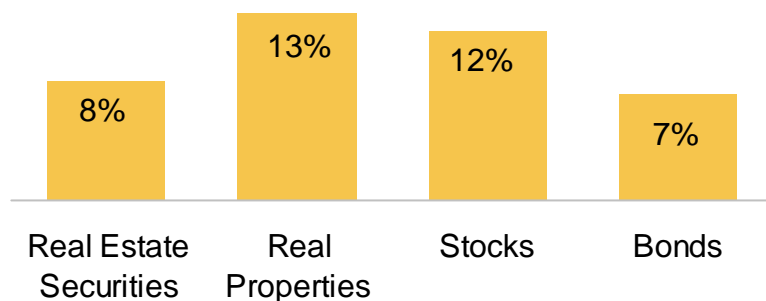
Estimated \$20 trillion



Source: Morgan Stanley

## U.S. Industry Returns by Asset Class

Annual Total Return 1986 – 2006 (%)



Source: Morgan Stanley

## Real estate investments offer:

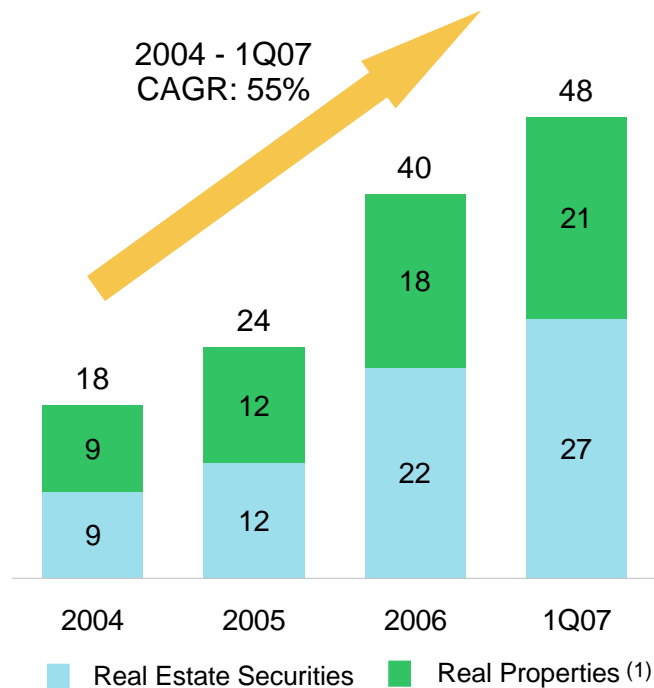
- Strong historic and anticipated total returns
- Favorable risk-adjusted returns – high and stable income returns
- Protection against unexpected inflation
- Reduced overall portfolio risk through diversification
  - Low correlation to stocks and bonds

## Real estate industry opportunities:

- Continued healthy flows
- Globalization

# Real Estate – What We Have

## MSIM Real Estate AUM (\$billion)



Source: Morgan Stanley

Notes:

(1) Real property assets under management are presented net of the debt utilized to finance such assets. These assets were previously managed within Institutional Securities and were disclosed on a gross basis (including debt) in Morgan Stanley's consolidated assets under management on page 12 of Morgan Stanley's 1Q07 Financial Supplement.

- Leading global real estate franchise
- Full array of products and strategies
- 25 offices globally: 600+ professionals
- Diverse investor base
- Significant deal sourcing from Morgan Stanley Investment Banking
- Real estate securities and real property businesses have complementary skills

# Real Estate – What We Have

Return Parameters

	Core	Public Securities	Value-Added	Opportunistic			
Americas	Prime Property Fund 1973 - Present	MSIF Fund <i>US</i> 1995 - Present  <i>International</i> 1997 - Present  <i>Global</i> 2006 - Present	SICAV Funds <i>US</i> 1995 - Present  <i>Europe</i> 1997 - Present  <i>Asia</i> 1997 - Present  <i>Global</i> 2006 - Present	Separate Accounts <i>US</i> 1995 - Present  <i>International</i> 1997 - Present  <i>Europe</i> 1997 - Present  <i>Global</i> 1998 - Present			
	Global Core Fund (KAG) 2005 - Present				Global Best Ideas 2005 - Present	Separate Accounts 1990 - Present	Other Funds 1994 - Present
	Separate Accounts 1955 - Present						
Europe	Eurozone Office Fund 2004 - Present						
Asia	Japan Core Fund 2005 - Present						
				MSREF Domestic 1991 - Present			
				MSREF Related Accounts 2006 - Present			
				MSREF International 1997 - Present			
				Special Situations <i>Europe</i> 2001 - Present  <i>Asia</i> 1997 - Present			
				CWG Separate Accounts 2004 - Present			

# Real Estate – What We Are Doing

## Record capital raised

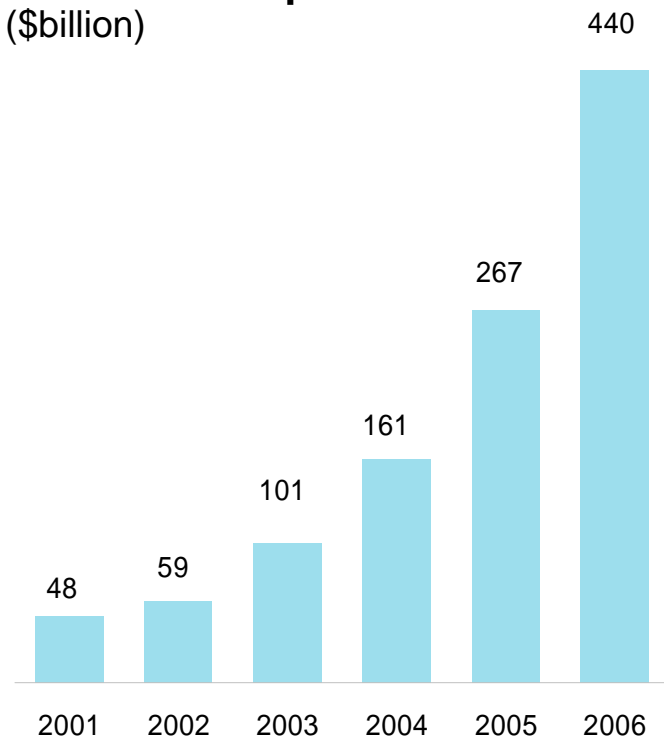
- High uptake among existing and new investors
- Increased global interest in core products
- Increased focus on international investment vehicles
- Capital being deployed more quickly
- New products

## Global investment focus

- Valuation opportunities in Germany and Japan
- Emerging market opportunities to develop and monetize real estate assets
- Opportunities in assets with high barriers to entry (offices in gateway cities, upscale urban and resort hotels)
- Opportunities driven by demographic trends in U.S.
- Public to private opportunities in U.S.

# Private Equity – Market Opportunities

## LBO Transaction Volume U.S. and Europe (\$billion)



Source: S&P Leveraged Buyout Review (US) 4Q 2006  
S&P LCD European Leveraged Buyout Review 4Q 2006

- LBOs are at record volumes and in 2006 accounted for approximately 25% of U.S. M&A activity
- Record \$221 billion raised in 2006
  - Fueled by strong returns
- Average private equity fund size has grown
- Higher price transactions
  - Fueled by robust leveraged finance markets and benign credit environment
- Private equity has become increasingly active in emerging markets (e.g. Asia)

# Private Equity – What We are Doing

- Morgan Stanley has a competitive advantage in sourcing transactions
  - Investment bankers in every major market
  - Deep vertical expertise in 14 industries
- Global distribution capabilities through institutional and high net worth relationships

## Private Equity

- Leadership in place
- Strong existing Asia business
- Building out team
- Building out investment pipeline

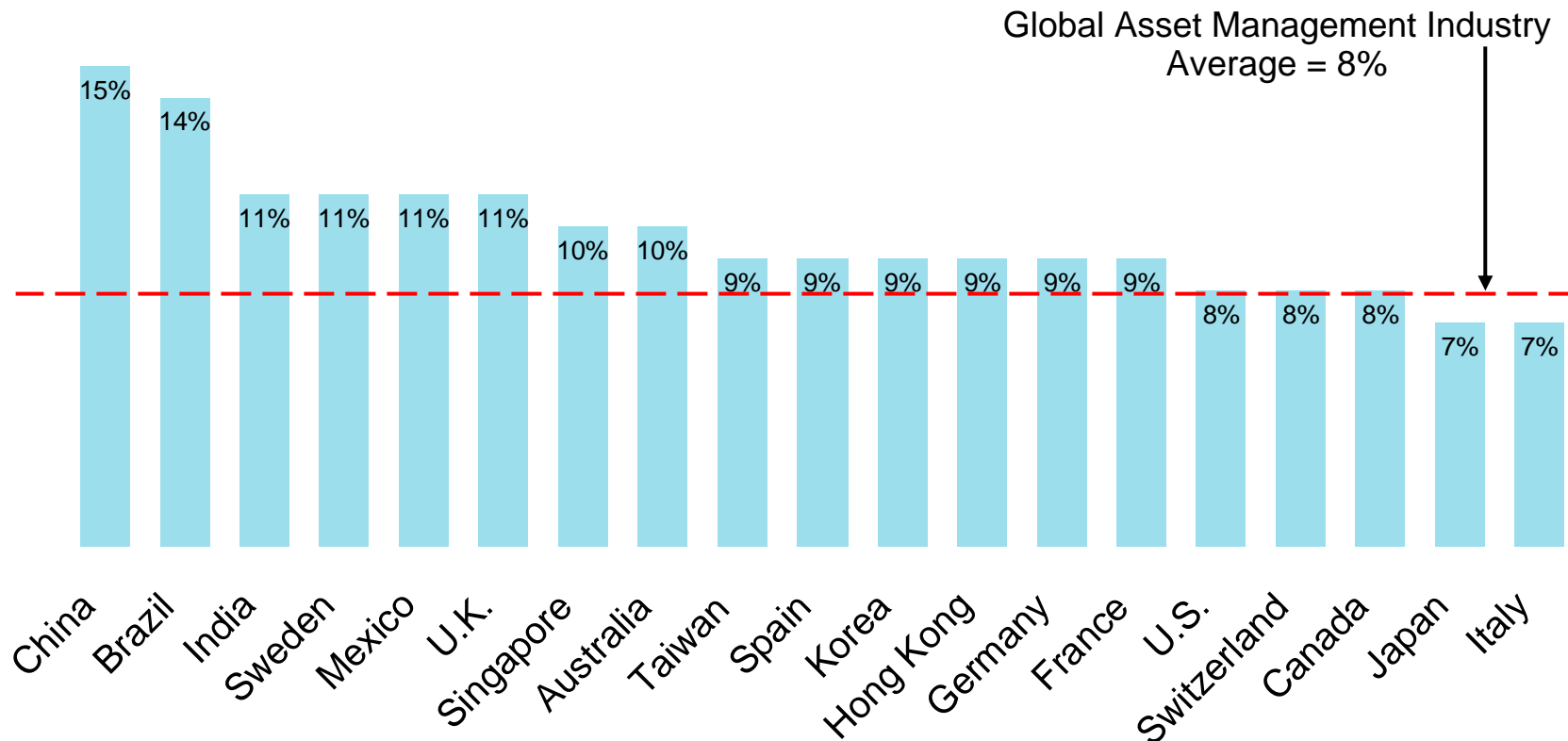
## Infrastructure

- Leadership in place
- Built out team
- Made two investments: Chicago Downtown Public Parking System, Montreal Gateway Terminals

# Non-U.S. – Market Opportunities

## Estimated AUM Growth Rate by Selected Country

Mutual Funds AUM CAGR 2005-2010 (%)

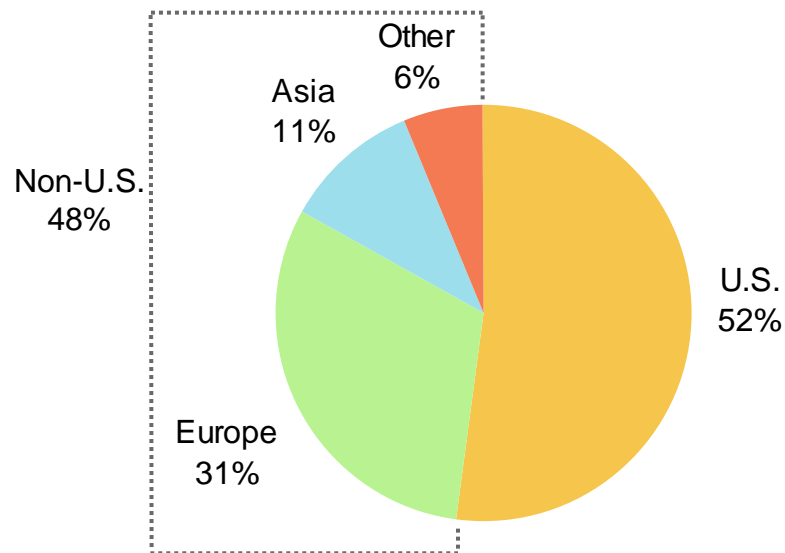


Source: "Cerulli Year-end 2005", June 2006

# Non-U.S. – Market Opportunities

## Global Industry Sourced AUM

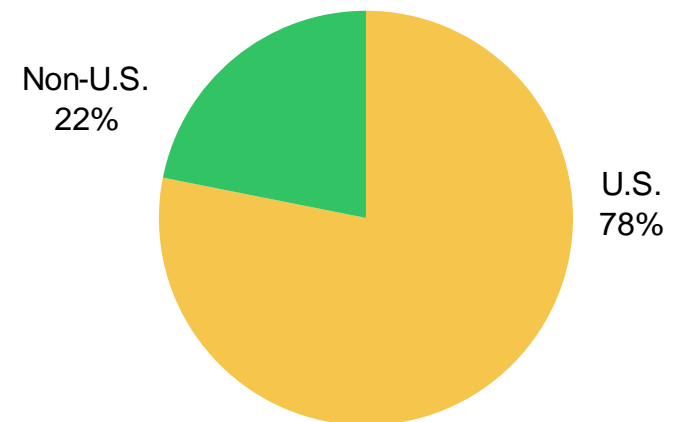
2007 estimate = \$50 trillion



Source: Empirical Research Partners, July 2006. Non-US from "Cerulli Year-end 2005", June 2006

## MSIM Sourced AUM

1Q07 Total AUM = \$521 billion <sup>(1)</sup>



Source: Morgan Stanley

Notes:

(1) Sourced assets under management include real property assets on a net basis previously managed within Institutional Securities and disclosed on a gross basis (including debt) in Morgan Stanley's consolidated assets under management on page 12 of Morgan Stanley's 1Q07 Financial Supplement, as well as institutional money markets/liquidity and retail money market assets.

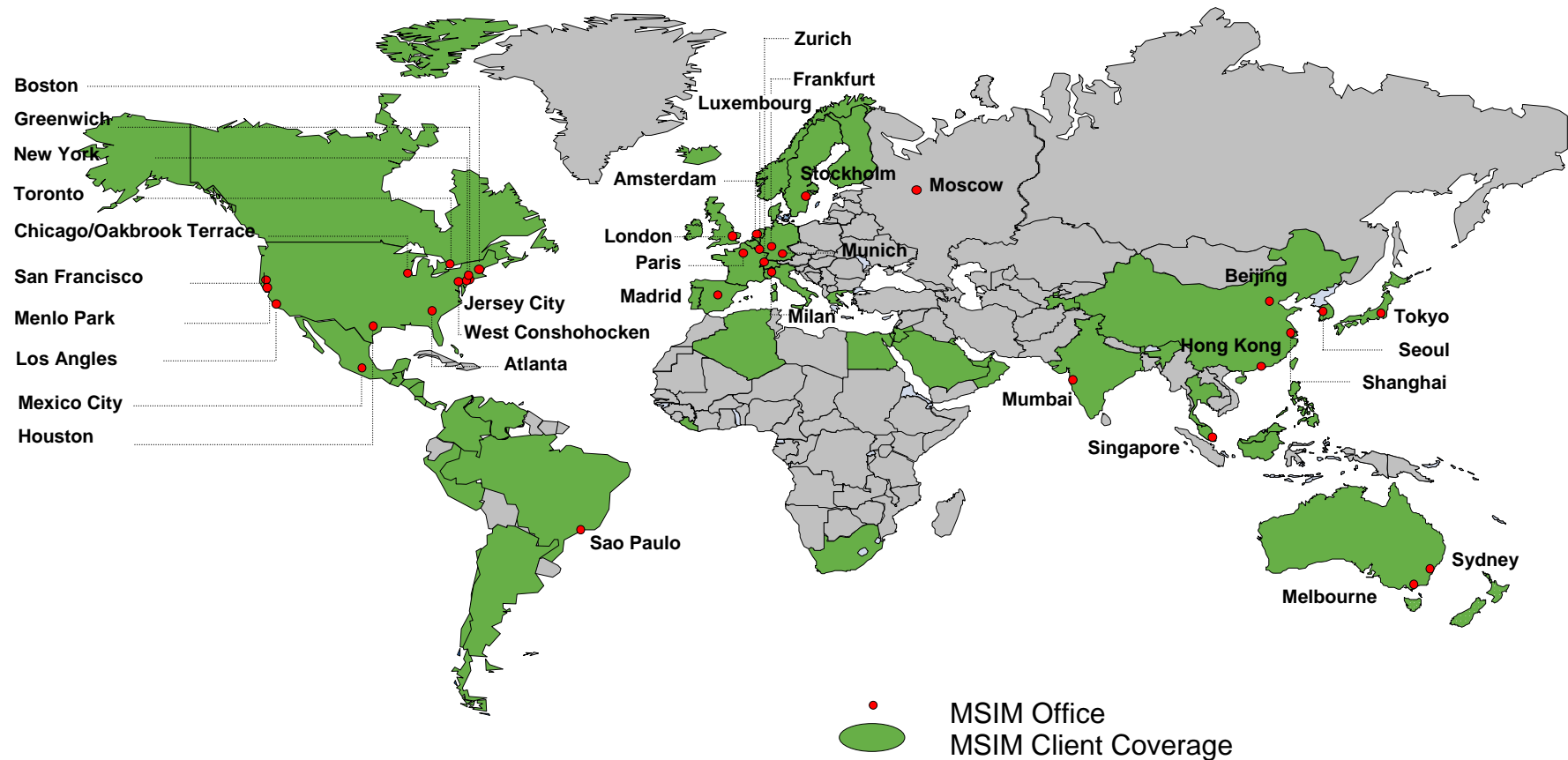
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# Non-U.S. – What We Have

MSIM's Global Footprint:

~3,900 employees, 850+ investment professionals, 34 offices in 20 countries



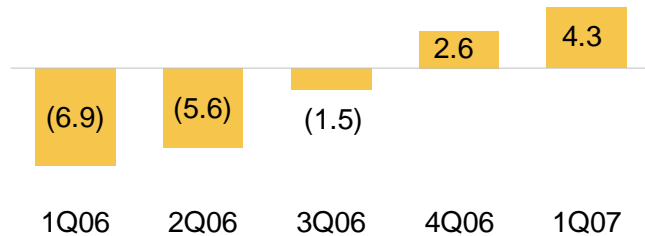
As of December 31, 2006.

# Non-U.S. – What We Are Doing

- Continue filling product gaps through acquisitions/lift-outs and building teams
- In mature markets, distribute global products through strong existing institutional and intermediary platforms
- In high growth markets, develop local platforms to distribute local products:
  - Exploring possibilities in China, Taiwan, and Brazil
  - New J.V. in Saudi Arabia and presence in Dubai
  - Building domestic business in India
- Leverage Morgan Stanley global franchise and relationships to generate new business
- Capitalize on opportunity offered by governments/pension funds diversifying holdings

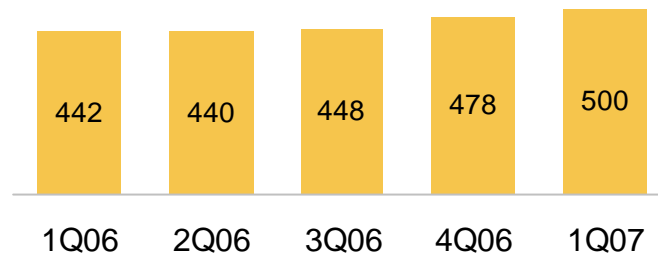
# MSIM First Quarter 2007 Highlights <sup>(1)</sup>

## Net Flows (\$billion)



Source: Morgan Stanley SEC Filings

## Assets Under Management / Supervision (\$billion)



Source: Morgan Stanley SEC Filings

Notes:

(1) Excludes migration of real property business from Institutional Securities to MSIM.

- The second consecutive quarter with positive net flows
- AUM/AUS reached \$500 billion
- FrontPoint Partners made a meaningful contribution to 1Q 2007 results
- Launched / Incubated new products:
  - 12 Alternative
  - 5 Equity
  - 4 Fixed Income

# Measuring Our Progress

## First Year

### Business Investment

- ✓ New management team
- ✓ Fill leadership gaps
- ✓ Reorganize business
- ✓ Bottom-up business plan
- ✓ Complete several team acquisitions, lift-outs and minority stakes
- ✓ Build foundation for Alternative business
- ✓ Re-enter the Private Equity business
- ✓ Build out Infrastructure business
- ✓ Seed new products
- ✓ Build MSIM infrastructure
- ✓ Open lines of communication
- ✓ Margin pressure

## Two to Three Years

### Gaining Traction

- ✓ Continue to attract high-quality talent
- ✓ Positive flows
- More complete traditional product offering
- Continue to selectively pursue acquisitions, minority stakes, lift-outs and alliances, particularly outside the U.S.
- ✓ Increasing number of hedge fund and private equity strategies
- Revitalize Morgan Stanley Advisor Fund family
- Rationalize current fund product offerings
- Initial margin pressure followed by improvement

## Three to Five Years

### Results

- Industry leader
  - Improving performance
  - Innovative products
  - Superior client service
- First choice for clients
- Competitive fund flows
- Competitive PBT margin
- Enhanced value for Morgan Stanley shareholders

# Measuring Our Progress

## Key success metrics <sup>(1)</sup>

	FY 2006	1Q07	Aspiration
YoY Net Revenue Growth (%)	(5%)	28%	Double-digit growth
Pre-tax Margin (%)	26%	26%	25-30%
Assets Under Management (\$billion)	478	500	600+
Net Flows (\$billion)	(11)	4	Strong and competitive positive flows
New Products Launched	58	21	~30 (FY)
Retail Product Performance: % of Morningstar-rated Assets in 4- and 5-star funds	39	38	50+

Source: Morgan Stanley SEC Filings and Earning Releases, Morningstar

Notes:

(1) Excludes migration of the real property business from Institutional Securities to MSIM.

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