

Morgan Stanley

November 2014

A Message to Morgan Stanley's Institutional Fixed Income Clients

Re: Fixed Income Trading Practices and Information

This letter is part of our ongoing effort to provide transparency to our clients on our business practices. The contents of this letter are also available at morganstanley.com/disclaimers and may be updated from time to time. As we enter into transactions with you based upon a mutual understanding of the terms and conditions of our dealing, it is important that you read this letter to understand how we may trade in relation to your expressions of interest or orders (as applicable) in fixed income products (collectively, "Fixed Income Transaction Requests") and otherwise engage with you and others in these markets generally. This includes our management of conflicts of interest that may exist or arise in our principal dealing and market making activities. To the extent that you continue to enter into fixed income transactions with us, it will be on the basis that you have read and understood the terms disclosed in this letter.

Overview

Morgan Stanley is a global financial services firm engaged in a broad spectrum of activities, including transactions in fixed income securities (including corporate and sovereign bonds), swaps and options (including interest rates and credit), foreign exchange and other fixed income financial instruments ("Fixed Income Products") for a variety of purposes. Morgan Stanley trades as principal in fixed income markets, and generally does not take orders for Fixed Income Products or act on an agency or fiduciary basis with respect to any transaction, unless specifically agreed with you, and then only where we act with discretion in execution (referred to in certain regions and products, such as securities transactions in the U.S., as being on a "not held" basis).

As Morgan Stanley regularly trades as principal in the fixed income market in connection with its dealing and market making activities for you and other clients, and to hedge its risk with respect to such activities, we may transact as a principal in Fixed Income Products at the same time as, or before we execute your Fixed Income Transaction Request. In addition, and subject to your specific instructions, we may source liquidity through a variety of means including internal trading desks, external trading venues or interdealer markets, or algorithms, depending on the size of the transaction relative to liquidity, available avenues and speed of execution, prevailing market conditions, and other factors.

Principal Trading and Market-Making

The fixed income market is predominantly a principal market. Thus, as a market maker, we typically face our clients as principal when executing trades resulting from Fixed Income Transaction Requests, and may trade ahead of or alongside your transactions to execute other client transactions (including where such trading is on a systematic, automated basis through the

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use of algorithms or other execution methodologies), to hedge, to liquidate risk resulting from our client facilitation business, to source liquidity for market making purposes or as part of a previously commenced strategy. These activities and unrelated Morgan Stanley activity on a principal basis in the same Fixed Income Products may impact the prices you receive on your transactions, but we employ reasonably designed means to minimize market impact and stand ready to discuss market pricing and execution levels with you at any time. When applicable, if we act with discretion in executing an order (for example, at “best,” or through an order worked over a period of time and subject to parameters we agree with you), such order is on a “not held” basis and Morgan Stanley may enter into transactions in the market at different times and prices in order to execute your order, and ultimately provide you with an overall fill that takes into account these executions. Unless we agree otherwise, the price of any transaction we execute with you may include what we believe to be a reasonable bid-ask spread.

In order to execute a Fixed Income Transaction Request, including, for example, those tied to specific currency pairs, benchmarks, fixing rates (e.g., WM/Reuters or ISDAFix), or closing levels, or plain vanilla or exotic options, we will typically attempt to offset the risk incurred by transacting in the market on a principal basis, or accessing internal liquidity sources, in the relevant or a related instrument. Alternatively, we may choose to leave a position unhedged or partially hedged, and may adjust any hedge from time to time in our sole discretion. In order to unwind a hedge, we may need to unwind our position by trading in the relevant or related instrument. As a result, we may be unwinding or adjusting hedge positions before the performance date or time for determination of a benchmark, fixing rate, or barrier price contained in your transactions, or our hedging strategy may involve greater and more frequent dynamic adjustments to our hedge as market prices approach a benchmark, fixing rate, or barrier price. All of the above dealing, market-making, hedging and hedge unwind activities may affect the market price of the relevant or related instruments, and thus the probability that a particular event as described above will occur. Regardless of whether or how we choose to hedge, any profit or loss resulting from any hedging activity will accrue to Morgan Stanley.

When negotiating any particular transaction with us, you may ask that we do not trade as a principal ahead of, or alongside, your transaction, or that we execute your instructions in a certain manner, such as through the use of algorithms. Please note that such an instruction may limit the execution services we are able to offer you in any particular case.

Liquidity Sourcing

In certain markets, such as foreign exchange and interest rates (including U.S. Treasuries and other sovereign bonds), Morgan Stanley utilizes a number of internally developed tools designed to access both external and internal sources of liquidity in order for Morgan Stanley, as principal, to provide what we deem to be the most favorable bids and offers, and executions, reasonably available under the circumstances. These tools may include internalization engines and/or smart order routers that route full or partial Fixed Income Transaction Requests to various external liquidity sources, including certain trading venues that electronically provide information to us regarding their available and accessible liquidity. Morgan Stanley may benefit from reduced transaction costs when executing through certain internal or external trading venues and, if we have an investment in, or other relationship with, an external venue, the Firm may receive other benefits as a result of that interest. In addition,

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all or a portion of your transaction may be filled by internal sources of liquidity rather than any external trading venues. Either way, unless we agree otherwise, Morgan Stanley will trade in a principal capacity, and your execution levels may be inclusive of what we believe to be a reasonable bid-ask spread, in addition to any disclosed fees that may be charged to access particular sources of liquidity.

When negotiating any particular transaction with us, you may ask that we access or avoid specific sources of liquidity in the relevant market. Please note that our ability to facilitate such a request will vary, and may limit the execution services we are ultimately able to offer you in any particular case.

Client Information

Protecting the confidentiality and security of client information is an important part of how we conduct our business. Morgan Stanley has reasonable controls that are designed to protect your confidential information. However, you should understand that Morgan Stanley does make use of some information contained in Fixed Income Transaction Requests and executed transactions in order to effectuate and risk manage the transactions themselves. Specifically, and unless you instruct otherwise, Morgan Stanley may use the economic terms of an Fixed Income Transaction Request (but not the client identity) to test liquidity and/or execute trades with one or more third parties (including interdealer brokers) in order to source liquidity. We may also use the economic terms of various transactions (including market, liquidity and credit risks) on an individual, portfolio, or other basis to evaluate and execute risk-mitigating transactions. In addition, as part of its obligations as a regulated entity, Morgan Stanley also shares client information as requested or required by its global regulators.

With regard to executed Fixed Income Product transactions, Morgan Stanley analyzes this information on an individual and aggregate basis for a variety of purposes, including counterparty risk management, sales coverage, and client relationship management. In addition, Morgan Stanley may analyze, comment on and disseminate anonymized and aggregated information regarding executed fixed income transactions, as well as Fixed Income Transactions Requests that may be away from the current market, together with other available information regarding various markets, internally and to its clients as part of its general market commentary and trade ideas.

Conclusion

Morgan Stanley is dedicated to upholding a high level of integrity and adhering to published industry best practices (such as those published by the TMPG, GFMA, IOSCO, the FSB and the Foreign Exchange Committee) in our dealings with clients. This letter is meant to underscore Morgan Stanley's commitment to providing clients transparency on our business practices. If you have questions after reading this letter or our dealings with you, we encourage you to contact your Morgan Stanley representative. We also encourage you to review important disclosures describing Morgan Stanley's role as a swap dealer, including material risks of trading foreign exchange and conflicts of interest, which are available at [Matrix/Disclosures](#) and morganstanley.com/disclaimers.