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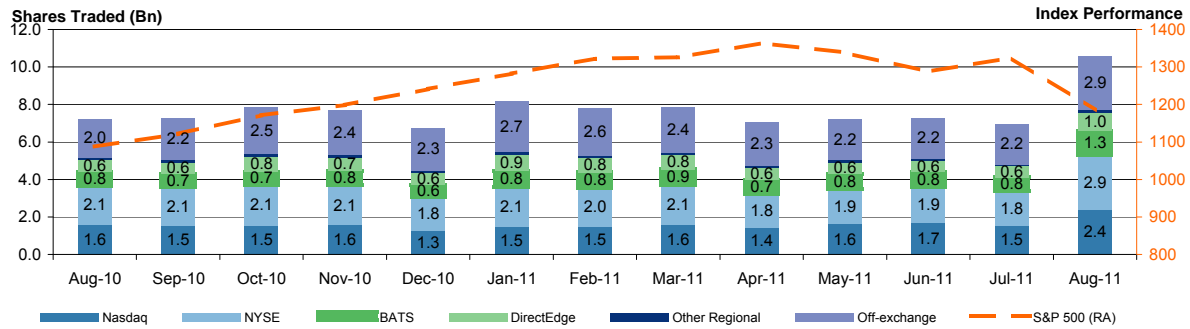
Market Commentary

- August 2011 ADV was 50% higher than levels 12 months prior as the S&P declined ~140 points from the prior month to an average of 1185. The majority of the increased volume was traded on-exchange: exchange volume traded increased ~60% versus the prior month, while off-exchange trading increased only ~33%. (Chart 1)
- Gross and net exposures for equity long/short hedge funds decreased by 5% and 20%, respectively, as the market declined, volatility increased dramatically and managers derisked. (Chart 3) Realized volatility levels in August were almost 2x average levels in the prior 3 months with the downgrade of US, and EU inaction. (Chart 4)
- Given volatile market conditions, traders reduced their use of traditional benchmark strategies e.g. arrival price and VWAP, in favor of more opportunistic (NightOwl) and/or reactive strategies. (Chart 5) Similarly in futures, Owl and TPOV usage increased on the most volatile market days. (Chart 9)
- Traders executed defensive plays in options, significantly increasing their call selling as a percentage of total options flow. (Chart 8)
- Through August, defensive factors like Size and Return on Equity outperformed. With market volatility, traders reallocated to perceived less risky names e.g. large cap and high free cash flow firms. (Chart 10)

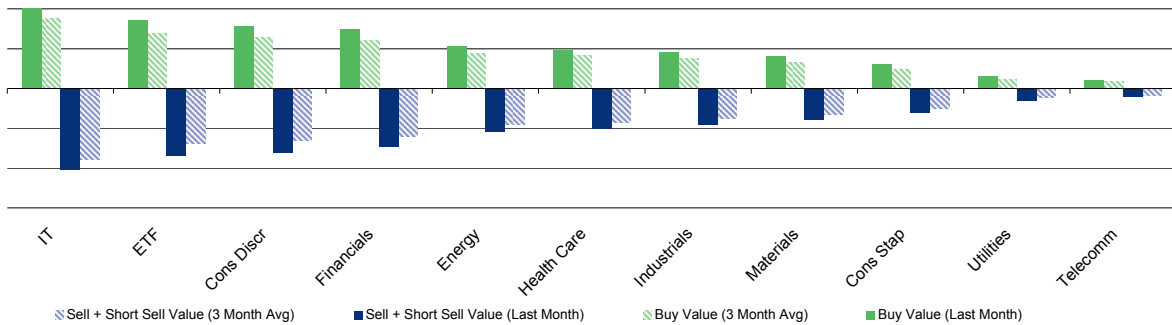
Market Structure Highlights

- The SEC's new Large Trader Reporting rule was published on August 3, 2011, and becomes effective on October 3, 2011. Any individual or firm that meets the definition of "Large Trader" will be required to identify itself to the SEC via new Form 13H. Broker-dealers will have recordkeeping, reporting and monitoring requirements. The compliance date for Large Traders to register is December 1, 2011. The compliance date for the broker-dealer requirements is April 30, 2012. The buy-side and sell-side are working together through various industry groups to gain further clarification from the SEC on certain aspects of the rule requirements.
- On August 8, 2011, the SEC expanded the current Single Stock Circuit Breakers pilot to all remaining NMS stocks ("Phase III stocks"). Phase III stocks are likely to be less liquid or have a lower trading volume, and so wider price moves are required to trigger a trading halt for these stocks. Specifically, for Phase III stocks priced \$1 or more, a price movement of at least 30% will be required to trigger a trading pause/halt. For Phase III stocks priced less than \$1, a price movement of at least 50% or more will be required to trigger a trading pause/halt.
- The SEC also separately extended the overall Single Stock Circuit Breakers pilot (which was scheduled to expire on August 11, 2011) until January 12, 2012. The SEC is separately still considering comments that it has received on a more optimal Limit Up-Limit Down mechanism to address extreme market volatility.
- The Committee on Foreign Investment in the US, a government panel that reviews national implications of foreign investments in US, cleared the planned merger of Deutsche Borse and NYSE Euronext, which would create the largest exchange operator in the world. The deal must now be considered by others, including the European competition authorities.
- On September 2nd, CBOE Holdings obtained SEC approval to launch trading in SPXpm, a p.m.-settled, cash-settled index options product based on the S&P 500 Index. SPXpm will be traded on the company's all-electronic C2 Options exchange on a 14-month pilot basis. This approval represents the reintroduction of "p.m. settlement" for actively traded index option contracts.

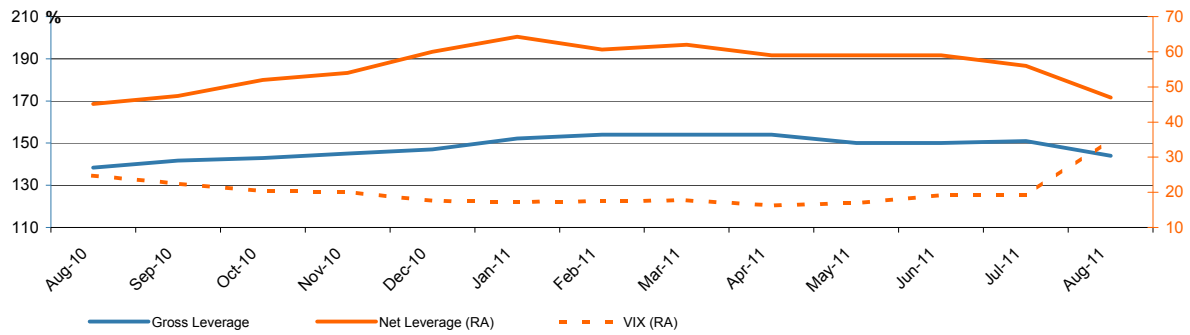
1. U.S. Composite ADV vs. S&P 500



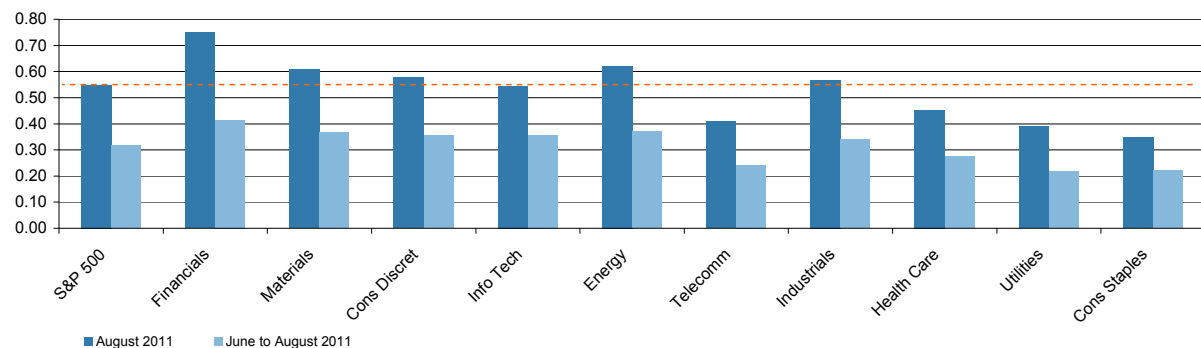
2. MSET Flows: August 2011 vs. June to August 2011



3. US Equity Long/Short Gross and Net Leverage

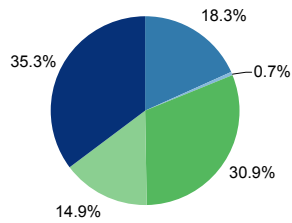


4. Realized Volatility: August 2011 vs. June to August 2011



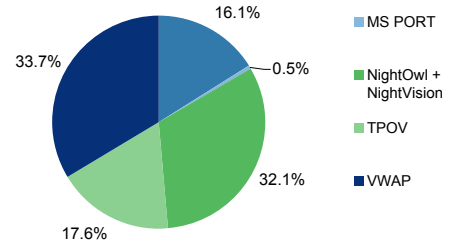
5. MSET Equity Strategy Usage (Shares Traded)

June 2011 - August 2011

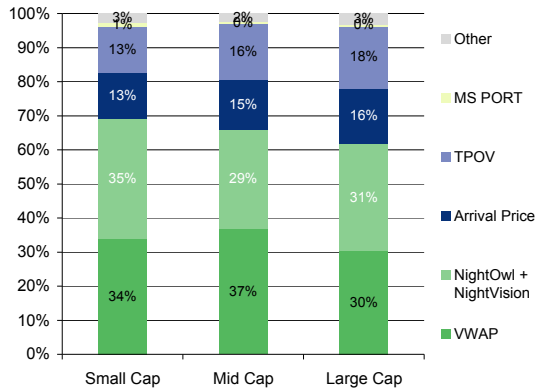


Source: Morgan Stanley Electronic Trading

August 2011



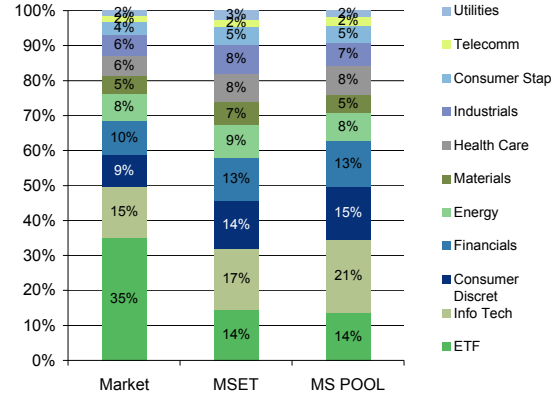
6. Strategy Usage by Mkt Cap (Shares, August 2011)



Source: Morgan Stanley Electronic Trading

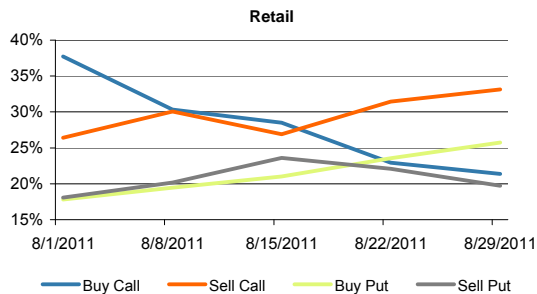
Large Cap: > \$5bn; Mid Cap: \$3bn - \$5bn; Small Cap: < \$3bn

7. Volume by Sector (Notional, August 2011)

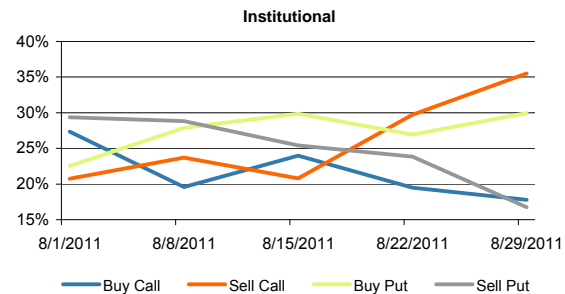


Source: Morgan Stanley Electronic Trading

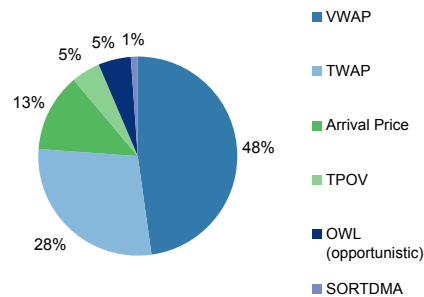
8. US Options Flow by Type - Retail and Institutional Customer Base (August 2011)



Source: Morgan Stanley Electronic Trading

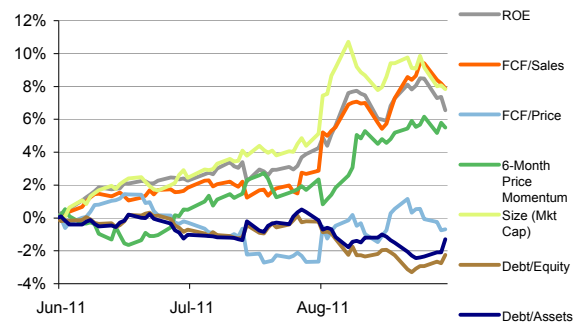


9. MSET Futures Algo Usage (Contracts, 3Q 2011)



Source: Morgan Stanley Electronic Trading

10. Cumulative US Factor Performance - S&P 500



Source: Morgan Stanley Quantitative and Derivatives Strategies

Quantitative factor portfolio returns can be used for risk assessment (e.g., style factors in fundamental risk models) or systematic alpha generation (e.g., quantitative sector-neutral stock selection models).