

Exchange-Traded Products: Features, Fees and Risks

It is important to understand how exchange-traded product (“ETP”) fees and expenses affect your investment and return. Of course, you also need to consider the product’s investment objectives, strategies and its risks.



Note: Before buying any ETP, request a prospectus from your Financial Advisor/Private Wealth Advisor and read it carefully. The prospectus contains important information on fees, charges, risks and investment objectives, and should be considered carefully before investing. You can also request a copy of an exchange-traded fund’s statement of additional information (“SAI”) for additional details.

Summarized below is important information about ETPs including features, pricing, revenue-sharing, expense payments and fees for data analytics. This summary also explains how Morgan Stanley and your Financial Advisor/Private Wealth Advisor are compensated when you invest in ETPs. Other available investment options feature different fees and expenses, and may provide less compensation to Morgan Stanley and your Financial Advisor/Private Wealth Advisor. You should speak with your Financial Advisor/Private Wealth Advisor if you have any questions regarding the relative costs and compensation to Morgan Stanley and your Financial Advisor/Private Wealth Advisor for available investment product alternatives.

You can also visit the websites sponsored by the U.S. Securities and Exchange Commission (the “SEC”) (www.sec.gov) and the Financial Industry Regulatory Authority (“FINRA”) (www.finra.org) to obtain additional educational information about ETPs. An ETP’s prospectus and other offering documents (if applicable) contain its investment objectives, risks, charges, expenses and other important information, and should be read and carefully considered before investing.

With respect to fees and expenses, the following information principally pertains to ETP transactions through commission-based brokerage accounts at Morgan Stanley. For more information on fees and expenses in our fee-based advisory account programs, please refer to the applicable [Morgan Stanley Form ADV Brochure](#). You should consider all of the available methods for purchasing and holding ETPs discussed in this booklet, your Morgan Stanley advisory program documents, as well as through our self-directed program, E*TRADE.

Types of ETPs

ETPs encompass several product types, including but not limited to, exchange-traded funds (“ETFs”),

exchange-traded notes (“ETNs”) and commodity trusts, each with distinct features and risks.

Most ETPs are structured as ETFs, which are pooled investment funds that can invest in stocks, bonds and other assets based on each ETF’s specified objective and strategy. ETFs are registered with and regulated by the SEC under the Investment Company Act of 1940 (the “1940 Act”), which includes many investor protections, such as governance and oversight requirements, limitations on leveraged and affiliated transactions, custody and safeguarding of fund assets, and periodic disclosure and reporting obligations.

ETPs can also include ETNs, which are unsecured debt obligations that can provide leveraged or inverse exposure to a variety of underlying benchmarks or reference objects, and separately, commodity trusts, which often seek to invest in or provide exposure to various commodities, including but not limited to natural resources, metals or cryptocurrency.

You should be aware that, unlike ETFs,

ETNs and commodity trusts are not registered with and regulated by the SEC under the 1940 Act, which means investors in such products do not avail themselves of 1940 Act protections.

You may also be aware of closed-end funds, which also trade on exchanges and are initially offered to investors through public offerings. Closed-end funds are generally not considered ETPs. For more information on closed-end funds, please see the disclosure titled “Closed-end Funds,” available at morganstanley.com/disclosures.

How ETPs are Managed

Each ETP has its own investment objective and investment strategy, which is described in the ETP’s prospectus. Please note, ETPs may be actively-managed or passively-managed. In general, actively-managed ETPs seek to outperform a market index or target return whereas passively-managed ETPs seek to track the performance of a market index or benchmark.

Regardless of whether an ETP is actively-managed or passively-managed, investing in ETPs involves risk, including the loss of principal. There is no guarantee that an ETP will

achieve its objective(s).

Please note that all types of ETPs can utilize complex investment strategies or invest in specialized asset classes, both of which carry significant risks. For more information regarding these assets, investment strategies and risks, such as investing in ETPs with leveraged or inverse strategies or those that seek to provide exposure to cryptocurrencies, please review the ETP's prospectus, as well as the applicable disclosures available at morganstanley.com/disclosures.

Buying and Selling ETPs

When you buy and sell ETPs, those transactions will be executed on the secondary market (i.e., on an exchange), as opposed to transacting directly with the ETP, as is the case with a mutual fund. This means that the price and liquidity of an ETP are directly impacted by the secondary market, and, as a result, ETPs are subject to certain "Market Pricing Risks" described below.

ETF PRICING

As noted, the price of an ETF share is determined by the market, which is different from the value of the ETF's actual holdings (i.e., the net asset value or "NAV" of the ETF).

Purchasing an ETF at a "premium" to its NAV (i.e., at a price higher than the value of the ETF's underlying holdings) and/or selling an ETF at a "discount" to its NAV (i.e., at a price lower than the value of the ETF's underlying holdings) can significantly affect the realized return earned by an investor. Such realized return can be substantially different from the return of the ETF's NAV, and, if applicable, the index an ETF may seek to track.

In addition, if an ETF has a lower trading volume (i.e., it is "thinly traded") or if more market participants want to sell rather than buy an ETF, an investor will likely have to accept a lower price to sell their ETF shares. This risk will likely be pronounced during times of market stress. Any of these situations, among others, could lead to an investor selling their shares at a discount to what the ETF's underlying holdings are actually worth and/or losing some or all of their principal investment.

An ETP's investment strategy can also impact the ETP's ability to provide liquidity

to shareholders. For example, ETPs that invest in less liquid or harder to price assets, such as fixed income (particularly high yield, bank loan, or other less liquid credit segments), emerging or frontier markets, small cap equities, commodities, cryptocurrency or alternative strategies such as private equity and private credit, have a higher risk that their shares will trade at a premium or discount to their NAV. Such divergences can be larger, more likely to occur, and/or longer lasting than for ETPs holding highly liquid securities.

As a result, you should consider how these Market Pricing Risks can negatively impact your investment.

Notably, ETPs rely on large institutions to make a market in their shares, which provides liquidity to the trading of the ETP and can help keep the market price of ETP shares closer to the ETP's NAV than it would be without such "Market-Making Activities." Market disruptions, new types of ETPs and/or other events, however, can make it challenging for such institutions to continue their Market-Making Activities and there is no guarantee that such activities will continue. As a result, you should not assume that an ETP's market price will be the same as its NAV.

ETN PRICING

The price of an ETN is also determined by the market rather than the value of the ETN as calculated by its issuer (its "Indicative Value"). As such, ETN investors will be subject to the Market Pricing Risks described above. ETNs, however, typically do not utilize the Market-Making Activities commonly associated with ETPs, which increases the risk that an ETN's market value will not match its Indicative Value. Additionally, issuers of ETNs can issue and redeem notes at any time, which can adversely affect the ETN's price in the secondary market.

It is also important to note that ETNs are unsecured debt obligations of their issuers, which are not guaranteed by any third party. As a result, all payments on ETNs, including payments at maturity or upon redemption, depend on the issuer's ability to satisfy its obligations as they come due. Because ETNs expose investors to the credit risk of the issuer, a deterioration in the issuer's actual or perceived creditworthiness will likely affect the market value of ETNs. In addition, if the ETN issuer defaults on its obligations, you may not receive any amounts owed to you

under the terms of the ETN.

COMMODITY TRUST PRICING

Similar to ETPs and ETNs, the price of a commodity trust is also determined by the market rather than the value of its underlying holdings, which means commodity trusts are likewise subject to Market Pricing Risks.

Some, but not all, commodity trusts rely on large institutions to conduct Market-Making Activities in their shares, which can help keep the market price of a commodity trust closer to that of its NAV (although, as with ETPs, this is not guaranteed). As a result, investors should be aware of how their commodity trust works, as commodity trusts that do not make use of Market-Making Activities are more likely to trade at premiums and/or discounts to their NAVs.

ETP Fees

Clients with brokerage accounts will generally pay commissions to Morgan Stanley on both the purchase and sale of ETPs. Accordingly, you should consider the cost of investing in ETPs, particularly if you intend to transact frequently. For more information on commission pricing and/or how ETP commissions compare with the costs of transacting in mutual funds, please speak with your Financial Advisor/Private Wealth Advisor. Clients with advisory accounts do not pay such commissions, but the value of any ETPs will be included in the client's overall assets for purposes of calculating the advisory account fee.

In addition to the commissions described above, ETPs generally charge investment management fees and ongoing expenses for operating the product that you will pay while you are invested. These fees and expenses are described in each ETP's prospectus fee table and vary from product to product. You can use prospectus fee tables to compare the annual ongoing fees and expenses of different ETPs, as well as those of other products, such as mutual funds and closed-end funds.

It is important to understand the above-mentioned fees and expenses because they decrease the return on your investment. As noted, if you have any questions regarding your investment costs, including whether lower cost options are available, please ask your Financial Advisor/Private Wealth Advisor.

Dividend and Capital Gains Distributions

Domestic ETPs are usually required to distribute dividends and net realized capital gains on their holdings to

shareholders. Although ETFs generally experience fewer net realized capital gains than other investment products, such gains can and do occur. Unless an ETF is held in a tax-advantaged account, shareholders will typically have to pay taxes on such income. This is true even if the ETF loses value during a given tax year. Reinvesting these distributions in your ETF does not prevent you from having to pay taxes on the distributions.

On the other hand, ETNs typically do not pay dividends, interest or make distributions, which means that ETN investors are generally not subject to taxable income until they sell their investment or the ETN matures. While certain commodity trusts have similar tax treatments, others generate taxable income annually, even without making distributions.

Please review the prospectus for your ETP, as well as consult with your tax advisor to learn more about its taxation, as Morgan Stanley does not provide tax advice.

Our Relationship with ETPs

We review and evaluate ETPs that are available for recommendation by our Financial Advisors/Private Wealth Advisors based upon various factors, including but not limited to:

- Investment opportunity;
- Experience of the ETP's manager and amount of assets under management;
- Level of interest and demand;
- Short- and long-term performance of the ETP;
- Tracking error of the ETP, if passively-managed;
- Trading volume, size, premium/discount to NAV and bid/ask spread of the ETP;
- Fees of the ETP;
- With respect to sponsors of actively-managed ETPs that our Financial Advisors/Private Wealth Advisors can recommend for purchase ("In-Scope ETPs"), agreement to economic terms in relation to revenue-sharing, which Morgan Stanley seeks to maintain on a uniform and levelized basis; and
- Ability to support our Financial Advisors/Private Wealth Advisors and clients through training, education and sales and marketing assistance.

Our Financial Advisors/Private Wealth Advisors are not permitted to recommend investments in ETPs that we have not reviewed and evaluated. Although clients can purchase other ETPs on an unsolicited basis (i.e., without the product being recommended by a Financial Advisor/Private Wealth Advisor), Morgan Stanley does not review and evaluate ETPs that are only available on an unsolicited basis.

Additional Compensation for Morgan Stanley

In addition to commissions, Morgan Stanley receives the following types of compensation related to ETPs.

REVENUE-SHARING

Morgan Stanley charges a support fee, also called a revenue-sharing payment, to sponsors of In-Scope ETPs. We do not charge support fees on any other ETPs available for sale at our Firm. The support fee is generally applied to client account holdings of In-Scope ETPs based on a tiered rate that increases along with the management fee of the ETP. This means that sponsors pay lower rates on In-Scope ETPs with lower management fees than on those with higher management fees. The rate ranges up to a maximum of 0.12% per year (i.e., \$12 per \$10,000 of assets).

The tiered rates are the same for commission-based brokerage and fee-based advisory client account holdings. However, for advisory accounts there are account type and program exceptions and the fees are rebated to clients. Please see the applicable Morgan Stanley Form ADV brochure for additional information.

Revenue-sharing payments are generally paid out of sponsor or other affiliate revenues or profits and not from ETP assets. However, sponsor or affiliate revenues or profits may, in part, be derived from fees earned for services provided to and paid for by ETPs. Morgan Stanley does not receive any portion of these revenue-sharing payments through brokerage commissions generated by an ETP.

Although we seek to charge the same revenue-sharing fee rate schedule for In-Scope ETPs, we have an incentive to promote and recommend the In-Scope ETPs whose sponsors make these payments over other ETPs whose sponsors do not, such as passively-managed ETPs and actively-managed

ETPs that are only available on an unsolicited basis. In addition, since our revenue-sharing rates are higher for In-Scope ETPs with higher management fees, this fact presents a conflict of interest for us to promote and recommend In-Scope ETPs with higher management fees over those with lower management fees. In order to mitigate these conflicts, Financial Advisors/Private Wealth Advisors and their Branch Managers do not receive additional compensation as a result of revenue-sharing payments received by Morgan Stanley. Moreover, for advisory accounts the revenue-sharing payments we receive are rebated back to clients.

EXPENSE PAYMENTS AND DATA ANALYTICS FEES

Morgan Stanley provides sponsors of all ETPs sold through Morgan Stanley with opportunities to sponsor meetings and conferences, and grants them access to our Branch Offices and Financial Advisors/Private Wealth Advisors for educational, marketing and other promotional efforts. Representatives for such ETPs may also work closely with our Branch Offices and Financial Advisors/Private Wealth Advisors to develop business strategies and support promotional events for clients and prospective clients, and educational activities. Some ETP sponsors or their affiliates reimburse Morgan Stanley for certain expenses incurred in connection with these promotional efforts, client seminars and training programs. ETP sponsors independently decide if and what they will spend on these activities, with some ETP sponsors agreeing to make annual dollar amount expense reimbursement commitments of up to \$900,000, although actual reimbursements may be higher. Some sponsors of ETPs also invite members of your Morgan Stanley team to attend events. Expense payments may include meeting or conference facility rental fees and hotel, meal and travel charges.

Morgan Stanley also provides all ETP sponsors with the opportunity to purchase data analytics regarding ETP sales. For ETP sponsors electing to purchase such data, the fee depends on the level of data and ranges up to \$650,000 per year. We also offer sponsors of passively-managed ETPs a separate transactional data fee ranging up to \$550,000 per year. For an additional fee, all ETP sponsors may purchase supplemental data analytics regarding financial product sales at Morgan Stanley.

These facts present a conflict of interest for Morgan Stanley and our Financial Advisors/Private Wealth Advisors to the extent they lead us to focus on ETPs from those sponsors that commit significant financial and staffing resources to promotional and educational activities and/or purchase data analytics instead of ETPs from sponsors that do not. In order to mitigate these conflicts, Financial Advisors/Private Wealth Advisors and their Branch Office Managers do not receive additional compensation for recommending ETPs from sponsors that purchase data analytics.

ETP representatives are allowed to provide funding for client/prospect seminars, employee education and training events, and an occasional meal and entertainment and gifts. Morgan Stanley's non-cash compensation policies set conditions for these types of benefits, and do not permit any funding conditioned on achieving any sales target or awarded on the basis of a sales contest.

OTHER COMPENSATION RECEIVED FROM ETPS

Morgan Stanley or its affiliates receive from certain ETPs and/or their sponsors, compensation in the form of commissions and other fees for providing traditional brokerage services, including related research and advisory support, and for purchases and sales of securities for ETP portfolios. We also receive other compensation from certain ETPs for financial services performed for the benefit of such ETPs. Morgan Stanley prohibits linking the determination of the amount of brokerage commissions and service fees charged to an ETP to the aggregate values of our overall ETP-share sales, client holdings of the ETP or to offset the revenue-sharing, expense reimbursement and data analytics fees described above. Financial Advisors/Private Wealth Advisors and their Branch Office Managers receive no additional compensation as a result of these payments received by Morgan Stanley.

Availability of Affiliated ETPs

Certain of our affiliates, which include Morgan Stanley Investment Management, Eaton Vance, Boston Management and Research, Calvert Research and Management, Atlanta Capital Management Company and Parametric

Portfolio Associates, serve as the investment adviser to certain ETPs that we offer ("Affiliated ETPs"). These affiliated entities receive investment management fees and other fees from the Affiliated ETPs. Therefore, Morgan Stanley has a conflict of interest to recommend Affiliated ETPs. In order to mitigate these conflicts, Financial Advisor/Private Wealth Advisor and Branch Manager compensation does not increase for recommending Affiliated ETPs. Affiliated ETP sponsors are subject to the same economic arrangements with Morgan Stanley as described herein.

Offshore ETFs

For UK and non-EEA Investors:

KEY INVESTOR INFORMATION DOCUMENTS (KIIDS)

Please be advised there is a Key Investor Information Document (KIID) available for each offshore ETF offered by investment companies regulated as Undertaking for Collective Investment in Transferable Securities in accordance with Directive 2009/65/EC (UCITS). The KIID contains essential information and key facts about the UCITS fund aimed at helping investors make informed decisions about whether the particular fund meets their investment needs. Please read the KIID carefully before you invest.

We provide investors with access to the KIID by means of a website, portal, or any other durable medium other than paper for all investors who have made transactions in UCITS ETFs. Investors may request a paper copy of the KIID free of charge. Any KIID provided to investors by means of a website/portal, including any updates, will be made available at <https://www.morganstanley.com/disclosures/kid-kiid/prospectus> for UCITS ETFs. You agree to review the KIID, including any updates, in good time before being bound by any contract or offer relating to any UCITS ETF, on a trade-by-trade basis.

For EEA Investors:

KEY INFORMATION DOCUMENTS (KIDS)

Please be advised there is a Key Information Document (KID) available for each offshore ETF offered by investment companies established in an European Economic Area as an Undertaking for Collective Investment in Transferable Securities in accordance with Directive 2009/65/EC (UCITS). The KID contains essential information and key facts about the UCITS fund aimed at helping investors make informed decisions about whether the particular fund meets their investment needs. Please read the KID carefully before you invest.

We provide investors with access to the KID by means of a website, portal, or any other durable medium other than paper for all investors who have made transactions in UCITS ETFs. Investors may request a paper copy of the KID free of charge. Any KID provided to investors by means of a website/portal, including any updates, will be made available at <https://www.morganstanley.com/disclosures/kid-kiid/prospectus> for UCITS ETFs. You agree to review the KID, including any updates, in good time before being bound by any contract or offer relating to any UCITS ETF, on a trade-by-trade basis.

Other Offshore ETPs

Morgan Stanley may also make available certain offshore ETNs and exchange-traded commodities ("ETCs"). These products are not UCITS-regulated, may be non-diversified, and involve risks that differ from offshore ETFs, including credit risk (for ETNs) and single-commodity exposure (for ETCs). Investors should carefully review each product's prospectus and risk disclosures prior to investing.

For More Information

For additional information on a particular ETP's payment and compensation practices, please refer to the ETP's prospectus and, if applicable, statement of additional information. If you would like more information on how ETFs compare with mutual funds, as well as certain factors that impact ETF liquidity, please see the disclosures titled "Mutual Funds and ETF Considerations" and "ETF, Mutual Fund, and Money Market Fund Liquidity Risks," respectively, both of which are available at [morganstanley.com/disclosures](https://www.morganstanley.com/disclosures). You may also contact your Financial Advisor/Private Wealth Advisor.

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