

# **Form ADV Wrap Fee Program Brochure Morgan Stanley Smith Barney LLC**

Fiduciary Services Program  
Consulting and Evaluation Services Program  
Investment Management Services Program  
Private Wealth Management Manager Assessment Program

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**This Wrap Fee Program Brochure provides information about the qualifications and business practices of Morgan Stanley Smith Barney LLC (“MSSB”). If you have any questions about the contents of this Brochure, please contact us at (914) 225-1000. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about MSSB also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the SEC does not imply a certain level of skill or training.**

## Item 2: Material Changes

This section identifies and discusses material changes to the ADV Brochure since the version of this Brochure dated March 28, 2013. For more details on any particular matter, please see the item in this ADV Brochure referred to in the summary below.

**Ownership of MSSB.** Prior to June 28, 2013, MSSB was owned by a joint venture company which was indirectly owned 65% by Morgan Stanley ("Morgan Stanley Parent") and 35% by Citigroup Inc. ("Citi"). On June 28, 2013, Morgan Stanley Parent purchased Citi's 35% interest in MSSB. Accordingly, MSSB is now a wholly owned indirect subsidiary of Morgan Stanley Parent. (Item 4)

**Fees.** The maximum annual fee for the IMS program is 2% (effective March 31, 2014). (Item 4.A)

For all the programs described in this brochure, there is a minimum annual MSSB Fee (calculated quarterly) for each account that was opened after June 30, 2009 (effective July 1, 2014). This minimum is the lesser of 2% or \$250 per year. This minimum will not apply to any account that (when added to any other Consulting Group accounts with which it is related for billing purposes) has a total of \$500,000 or more in assets as of the end of the previous billing quarter. (Item 4.A)

**Cash Sweeps.** MSSB will, as your custodian, effect "sweep" transactions of uninvested cash and allocations to cash, if any, in your account into:

- interest-bearing bank deposit accounts established under the Bank Deposit Program ("BDP") at banks affiliated with MSSB (collectively, the "Sweep Banks") or
- money market mutual funds. These money market funds are managed by Morgan Stanley Investment Management Inc. or another MSSB affiliate.

The Sweep Banks are currently Morgan Stanley Bank, N.A. and/or Morgan Stanley Private Bank, National Association.

If you do not select a Sweep Investment when you open your account, your Sweep Investment will be BDP if you are eligible. (Item 4.C)

**Funds in Advisory Programs.** Investing in strategies that invest in mutual funds and ETFs is more expensive than other investment options offered in your advisory account. In addition to our fee, you pay the fees and expenses of the Funds in which your account is invested. (Item 4.C)

MSSB and/or its affiliates receive payments for record keeping and related expenses from fund companies whose open-end mutual funds are offered through the managers of the programs described in this Brochure of up to 0.16% per year of the assets of such funds that are held by those MSSB clients that are not Retirement Plans (as defined herein). (Item 4.C)

*Client Selection of MSSB Affiliated Funds.* Where clients select to invest in strategies with mutual funds where the investment adviser is a MSSB affiliate, MSSB and its affiliates may also receive investment management fees and related administrative fees. (Item 4.C)

*Share classes.* Fund companies have developed additional types of specialized share classes designed for specific advisory programs. If available, clients' shares are converted into the share class required by the mutual fund for that type of account. On termination of your account, or the transfer of mutual fund shares out of your advisory account into a MSSB brokerage account, we will convert any institutional shares and/or advisory shares to the corresponding non-advisory share class. (Item 4.C)

**Conflicts of Interest.** We disclose conflicts of interest arising when we execute block trades for managers, receive benefits from managers and where we or the managers acquire nonpublic information. (Item 6.B)

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## Item 4: Services, Fees and Compensation

Morgan Stanley Smith Barney LLC (“MSSB”, “we”, “us” or “our”) is, among other things, a registered investment adviser, a registered broker-dealer, a registered futures commission merchant, and a member of the New York Stock Exchange. MSSB is one of the largest financial services firms in the country with branch offices in all 50 states and the District of Columbia.

Prior to June 28, 2013, MSSB was owned by a joint venture company which was indirectly owned 65% by Morgan Stanley (“Morgan Stanley Parent”) and 35% by Citigroup Inc. (“Citi”). On June 28, 2013 Morgan Stanley Parent purchased Citi’s 35% interest in MSSB. Accordingly, MSSB is now a wholly owned indirect subsidiary of Morgan Stanley Parent.

MSSB used to provide investment advisory services through two channels. One channel generally provided the investment advisory programs previously provided by Smith Barney and/or Citigroup Global Markets Inc. (“CGM”) (“SB Channel”). The other channel generally provided the investment advisory programs previously provided by Morgan Stanley & Co. Incorporated (now, Morgan Stanley & Co. LLC) (“MS&Co.”) (“MS Channel”). In 2012, MSSB merged the SB Channel and MS Channel advisory programs. Unless you selected an external custodian, all clients’ assets are held in custody at MSSB (except for “sweep” assets, which are held in custody at the Sweep Banks pursuant to the Bank Deposit Program). Please see Item 4.C (Services, Fees and Compensation -- Additional Fees – Cash Sweeps -- Bank Deposit Program) below, for more information.

MSSB offers clients (“you”, “your” or “Client”) many different advisory programs. Many of MSSB’s advisory services are provided by its Consulting Group business unit (“CG”). You may obtain Brochures for other MSSB investment advisory programs at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) or by asking your Financial Advisor or (for Morgan Stanley Private Wealth Management clients) your Private Wealth Advisor. (Throughout the rest of this Brochure, “Financial Advisor” means either your Financial Advisor or your Private Wealth Advisor, as applicable.)

### A. General Description of Programs and Services

This section describes the Fiduciary Services Program, the Consulting and Evaluation Services Program, the Investment Management Services Program and the Private Wealth Management Manager Assessment Program.

This section then discusses various general matters applying to these programs. MSSB and its Financial Advisors may also provide other services in connection with these programs. Any such services will be specified in the investment advisory agreement between MSSB and you (See “Account Opening”

below). In addition, the guidelines to these programs are subject to change without notice. You should consult with your Financial Advisor for further details.

### Fiduciary Services Program

The Fiduciary Services program offers you the portfolio management services of third-party managers, selected and approved by MSSB, in a program that provides consulting, custody, brokerage and performance reporting.

To invest in Fiduciary Services, we help you identify your investment objectives, risk tolerance, and investment time horizon. We generate an Investor Profile for you that sets out these responses, and identify suitable Fiduciary Services managers for you consistent with your Investor Profile. You may also consider other Fiduciary Services managers (subject to minimum investment requirements).

Once you select a manager, we retain the manager on your behalf, and give the manager a copy of your Investor Profile to review. A manager has no obligation to you until it has accepted you as a client. The manager manages your account and makes investment decisions in light of, among other things, your investment objectives and requirements (including any restrictions). However, restrictions imposed by you on the management of the account will not apply to or affect the internal management of a mutual fund or ETF purchased for the account. Each mutual fund and ETF is managed in accordance with the fund’s investment objectives and guidelines as set forth in the fund’s prospectus.

Sometimes Fiduciary Services managers delegate some of their duties to a subadvisor.

In the Fiduciary Services program, you sign a client agreement with MSSB. You do not sign a separate agreement with the manager.

From time to time, your Fiduciary Services managers may request that we provide them with information about you and your account (including your financial situation and investment objectives) and we may provide them with a data download of all transactions they effected on your behalf.

The decision to participate in Fiduciary Services and the selection of the manager(s) is your decision and responsibility.

**Changes to Investment Managers.** Managers provide advisory services to Fiduciary Services clients under an agreement between MSSB and the manager. MSSB may terminate the investment manager’s agreement with MSSB for any reason. Managers may terminate the agreement, or their services to one or more clients, for any reason, generally on a defined period of notice to MSSB.

If your manager is terminated from the Fiduciary Services program, we will notify you and ask you to select a new manager. Our notice may also identify an appropriate replacement manager selected by us. If you do not select a new manager within the time frame prescribed in our notice and if the

notice specified a new manager, your assets will be invested with the replacement manager identified in the notice once that manager accepts your account.

You may change a manager for any reason by complying with MSSB's procedures for manager changes. Your Financial Advisor may recommend a change of managers if, e.g., your investment objectives or market conditions change or if, for some other reason, another manager would be more appropriate for you.

**Implementing Investment Managers' Strategies.** Generally, the manager determines the number of securities to buy and sell in each client account, constructs the trade packages for securities transactions, and then instructs broker-dealers (usually MSSB) to execute those trades.

In certain strategies, however, Legg Mason Private Portfolio Group, LLC (as the manager) provides a model portfolio to MSSB. MSSB then determines the number of securities to buy and sell to keep each client account invested according to the manager's model (subject to any client restrictions), constructs the trade packages and executes the trades. This applies to those strategies with "ClearBridge" in the strategy name (except for ClearBridge balanced strategies).

In some of these strategies, the manager has also transferred certain other administrative responsibilities to MSSB.

### **Consulting and Evaluation Services Program**

The Consulting and Evaluation Services ("CES") program offers you the portfolio management services of unaffiliated managers, selected and approved by MSSB, in a program that provides consulting, custody, brokerage and performance reporting.

To participate in the CES program, you sign separate agreements with MSSB and each of your selected managers, and pay separate fees to MSSB and each manager. You delegate investment discretion directly to the managers, while MSSB provides consulting, custody, brokerage and administrative services. Certain clients may also elect, subject to our approval, not to receive all the services available from MSSB in CES. You may open multiple accounts, each managed by one manager according to a specific investment style.

After receiving appropriate information from you, we identify several CES managers suitable for you. You may also consider other CES managers (subject to minimum investment requirements and other information provided by you). The manager you select has the sole authority to manage your account and make investment decisions in light of, among other things, your investment objectives and requirements (including any restrictions). Sometimes CES managers delegate some of their duties to a subadvisor.

The decision to participate in CES and the selection of the manager(s) is your decision and responsibility.

**Changes to Investment Managers.** If one of your managers is terminated from the CES program, you may choose to terminate your agreement with the manager and select a new manager for

your account so that you continue to receive the services available in the CES program. If you choose to maintain your contract with the manager, your account will become a brokerage account. If your account becomes a brokerage account, you will no longer have an investment manager managing your account, and you will be responsible for making all investment decisions for your account.

You may change a manager for any reason by complying with MSSB's procedures for manager changes. Your Financial Advisor may recommend a change of managers if, e.g., your investment objectives or market conditions change or if, for some other reason, another manager would be more appropriate for you.

### **Investment Management Services Program**

Certain clients may wish to obtain MSSB's services in some ways similar to CES, but use a manager or investment strategy not approved by MSSB for the CES program. For example, some such clients have a pre-existing relationship with that manager, and their investment with that manager is one part of their overall advisory relationship with MSSB.

We may accommodate you in the Investment Management Services ("IMS") program. Although you are not offered the manager identification, review and monitoring services described below, IMS offers execution, custody and basic performance reporting for your account. To participate in the IMS program, you sign separate agreements with MSSB and your selected manager, pay separate fees to MSSB and the manager and you delegate investment discretion directly to the manager.

**The decision to participate in IMS and the review and selection of the manager(s) is your decision and responsibility. MSSB will not assist in any way with the recommending or soliciting of the managers selected in the IMS program.**

**In addition, you, and not MSSB, will be responsible for the initial and ongoing evaluation and monitoring of the managers selected by you for the IMS program.**

### **PWM Manager Assessment Program**

The PWM Manager Assessment Program ("PWM MAP") offers the portfolio management services of unaffiliated managers, selected and approved by MSSB, in a program that provides consulting, custody, brokerage and performance reporting. PWM MAP is only available to Morgan Stanley Private Wealth Management clients.

To participate in PWM MAP, you sign separate agreements with MSSB and each of your selected managers, and pay separate fees to MSSB and each manager. You delegate investment discretion directly to the managers, while MSSB provides consulting, custody, brokerage and administrative services. Certain clients may also elect, subject to our approval, not to receive all the services available from MSSB in PWM MAP. You may open multiple accounts, each managed by one manager according to a specific investment style.

After receiving appropriate information from you, we identify PWM MAP managers suitable for you. You may also consider other PWM MAP managers (subject to minimum PWM MAP Manager requirements and other information provided by you). The manager you select has the sole authority to manage your account and make investment decisions in light of, among other things, your investment objectives and requirements (including any restrictions). Sometimes PWM MAP managers delegate some of their duties to a subadviser.

The decision to participate in PWM MAP and the selection of the manager(s) is your decision and responsibility.

***Changes to Investment Managers.*** If one of your managers is terminated from PWM MAP, you may choose to terminate your agreement with the manager and select a new manager for your account so that you continue to receive the services available in PWM MAP. If you choose to maintain your contract with the manager, your account will become a brokerage account. If your account becomes a brokerage account, you will no longer have an investment manager managing your account, and you will be responsible for making all investment decisions for your account.

You may change a manager for any reason by complying with MSSB's procedures for manager changes. Your Private Wealth Advisor may recommend a change of managers if, e.g., your investment objectives or market conditions change or if, for some other reason, another manager would be more appropriate for you.

## **Restrictions**

In the Fiduciary Services program, you may impose reasonable restrictions on account investments. For example, you may restrict the manager from buying specific securities or a category of securities (e.g., tobacco companies). If you restrict a category of securities, we will determine which specific securities fall within the restricted category. In doing so, we may rely on outside sources (e.g. standard industry codes and research provided by independent service providers). If you hold mutual fund shares in your account, you cannot place restrictions on the types of securities held by the mutual fund.

In CES, IMS and MAP, you should contact your manager to determine what types of restrictions you may place on your account.

## **Trade Confirmations, Account Statements and Performance Reviews**

Unless you have appointed another custodian in a program where you may do so, MSSB is the custodian and provides you with written confirmation of securities transactions, and account statements at least quarterly. You may waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication where available. You may also receive mutual fund prospectuses, where appropriate.

We will provide periodic reviews of your account. These reviews show how your account investments have performed, either on an absolute basis or on a relative basis compared to

recognized indices (such as Standard & Poor's indices). You may access these reports through MSSB's online account services site. To enroll your account in the online account service site, please go to <https://www.morganstanleyclientserv.com/FreeContent/Enrollments/Identification.aspx> and follow the step-by-step instructions. If, however, you would like to receive these reports by mail, please call 1-888-454-3965.

## **Consulting Group Trust Services**

In the programs described in this Brochure MSSB may offer fully integrated wealth management solutions, which may include trusts. MSSB will not accept an appointment as, nor will it act as, a trustee (an MSSB affiliate, such as Morgan Stanley Private Bank, National Association, may be serving as trustee for existing accounts and is closed to new accounts). In order to offer to you complete solutions, MSSB has created the Consulting Group Trust Services Program ("CG Trust Services") with external trust companies (including external banks which may serve as a corporate trustee) to provide trustee services for the assets in your account while you receive investment advisory services from MSSB.

To receive trustee services through CG Trust Services, you and your attorney will create separate agreements with an external trust company to govern the trust and you will appoint a trustee to act on your behalf in certain situations; you may appoint separate administration and investment trustees. You or your designees will sign these separate agreements and may pay a separate fee to your attorney. External trust companies and MSSB typically charge separate fees to CG Trust Services client accounts for their respective services, which may be higher than fees charged to clients outside of the CG Trust Services program for comparable services. In certain limited circumstances, MSSB will compensate an external trust company for the services it provides to a client account. Neither MSSB nor your Financial Advisor will be paid by the external trust company. In certain circumstances, MSSB or an affiliate may pay compensation to or receive an indirect economic benefit from an unrelated third party (see: "Client Referrals and Other Compensation", Item 9 below).

As part of CG Trust Services, you or your selected trustee, with investment authority, may delegate investment discretion directly to MSSB or receive non-discretionary investment advisory services through the programs offered by Consulting Group. Additionally, certain external trust companies have contractually agreed to attempt to use the services (including MSSB custody services) described in this Brochure for each CG Trust Services client (and in some cases, former CG Trust Services clients), unless the client has issued contrary instructions, and so long as such use of MSSB services will not cause the external trust company to violate any duty or obligation. Consequently, regardless of the external trust company you select, unless you have appointed another custodian, you can hold your assets in custody at MSSB through CG Trust Services. Accounts outside of CG Trust Services may be subject to different custody arrangements. MSSB has made arrangements to have a number of external trust companies participate in CG Trust Services, as described above. While these arrangements are designed to enhance the administrative

and operational experience of clients who appoint such an external trust company and MSSB to service the same assets, these arrangements could pose a conflict of interest for MSSB and its representatives by creating an incentive for them to introduce their clients to those external trust companies who have such arrangements with CG Trust Services over other external trust companies.

The decision to participate in CG Trust Services and the selection of the trustee and attorney are your decision and responsibility. MSSB and its affiliates do not provide tax and legal advice (see: "Tax and Legal Considerations", in this Item 4(A) below). For additional information and to determine eligibility for CG Trust Services, please contact your Financial Advisor.

## **Risks**

All trading in your account is at your risk. The value of the assets in your account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. We and the managers do not guarantee performance, and a manager's past performance with respect to other accounts does not predict your account's future performance.

In addition, certain investment strategies that mutual funds, ETFs or managers may use in the programs described in this Brochure have specific risks, including those associated with investments in common stock, fixed income securities, American Depositary Receipts, mutual funds, ETFs and foreign securities. You should consult with your Financial Advisor regarding the specific risks associated with the investments in your account. Also, please review any manager's ADV Brochure for a discussion of the material risks associated with any Strategy you may have selected. For the Fiduciary Services program, you may obtain this at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV), or by asking your Financial Advisor. For the CES, IMS and PWM MAP programs, please contact your manager to review any manager ADVs.

**Risks Relating to ETFs.** There may be a lack of liquidity in certain ETFs which can lead to a large difference between the bid-ask prices (increasing the cost to you when you buy or sell the ETF). A lack of liquidity also may cause an ETF to trade at a large premium or discount to its net asset value. Additionally, an ETF may suspend issuing new shares and this may result in an adverse difference between the ETF's publicly available share price and the actual value of its underlying investment holdings. At times when underlying holdings are traded less frequently, or not at all, an ETF's returns also may diverge from the benchmark it is designed to track.

**Risks Relating to Money Market Funds.** An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, there is no assurance that will occur, and it is possible to lose money if the fund value per share falls. Moreover, in some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. If this happens, the fund's holdings are liquidated and distributed to the fund's shareholders. This liquidation process

could take up to a month or more. During that time, these funds would not be available to you to support purchases, withdrawals and, if applicable, check writing or ATM debits from your account.

**Risks Relating to Master Limited Partnerships.** Master Limited Partnerships ("MLPs") are limited partnerships or limited liability companies whose interests (limited partnership or limited liability company units) are generally traded on securities exchanges like shares of common stock. Investment in MLPs entails different risks, including tax risks, than is the case for other types of investments.

Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in these sectors (including commodity pricing risk, supply and demand risk, depletion risk and exploration risk). Depending on the ownership vehicle, MLP interests are subject to varying tax treatment. Please see "Tax and Legal Considerations" below and any mutual fund or ETF prospectus, for more information. You may obtain any mutual fund or ETF prospectus by asking your Financial Advisor.

**Risks Relating to Mutual Funds and ETFs that Primarily Invest in Master Limited Partnerships.** In addition to the risks outlined above relating to Master Limited Partnerships, mutual funds and ETFs that primarily invest in MLPs generally accrue deferred tax liability. The fund's deferred tax liability (if any) is reflected each day in the fund's net asset value. As a result, the fund's total annual operating expenses may be significantly higher than those of funds that do not primarily invest in Master Limited Partnerships. Please see the fund prospectus for additional information.

**Risks Relating to Mutual Funds and ETFs that Pursue Complex or Alternative Investment Strategies or Returns.** These mutual funds and ETFs may employ various investment strategies and techniques for both hedging and more speculative purposes such as short selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. Alternative investment strategies are not suitable for all investors.

You should also keep in mind that while mutual funds and ETFs may at times utilize non-traditional investment options and strategies, they should not be equated with unregistered privately offered alternative investments. Because of regulatory limitations, mutual funds and ETFs that seek alternative-like investment exposure must utilize a more limited investment universe. As a result, investment returns and portfolio characteristics of alternative mutual funds may vary from traditional hedge funds pursuing similar investment objectives. They are also more likely to have relatively higher correlation with traditional market returns than privately offered alternative investments. Moreover, traditional hedge funds have limited liquidity with long "lock-up periods allowing them to pursue investment strategies without having to factor in the need to meet client redemptions. On the other hand, mutual funds typically must meet daily client redemptions. This differing

liquidity profile can have a material impact on the investment returns generated by a mutual fund pursuing an alternative investing strategy compared with a traditional hedge fund pursuing the same strategy.

Non-traditional investment options and strategies are often employed by a portfolio manager to further a fund's or ETFs investment objective and to help offset market risks. However, these features may be complex, making it more difficult to understand the fund's or ETF's essential characteristics and risks, and how it will perform in different market environments and over various periods of time. They may also expose the fund or ETF to increased volatility and unanticipated risks particularly when used in complex combinations and/or accompanied by the use of borrowing or "leverage".

***Risks Relating to Differing Classes of Securities.*** Different classes of securities have different rights as creditor if the issuer files for bankruptcy or reorganization. For example, bondholders' rights generally are more favorable than shareholders' rights in a bankruptcy or reorganization.

For other risks relating to the particular strategy you hold in your account, see your manager's Firm Brochure. For managers in the Fiduciary Services program, the current copy of your manager's Firm Brochure is online at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV), or you can ask your Financial Advisor for a copy. For the CES, IMS and PWM MAP programs, please contact your manager to review any manager ADVs.

## **Tax and Legal Considerations**

***Tax Harvesting.*** For the programs described in this brochure, certain managers may be able to accommodate tax harvesting for a client. Clients may elect for their manager to sell securities harvesting gains and losses for the account.

In the Fiduciary Services program, you may request the Financial Advisor orally or in writing to have the Manager "harvest" tax losses or gains in your account. You must make such request to the Financial Advisor each time that you desire "tax harvesting". Upon such request from you as communicated through your Financial Advisor, the Manager will make the decision to (a) sell securities in the Account in order to realize capital losses or gains; (b) reinvest the proceeds from the sale of securities in one or more broad based ETFs, cash, cash equivalents or other investments as determined by the Manager in accordance with the portfolio's investment strategy during any applicable wash sale period and/or (c) after the expiration of any applicable wash sale period, sell the selected ETF and/or invest the cash or ETF proceeds from such tax harvesting in the account in accordance with the applicable Manager's portfolio. You may request tax "harvesting" as outlined above (i) for specified securities, (ii) in a specified total gain or loss amount or (iii) in the maximum gain or loss amount available.

You acknowledge that the manager retains the sole discretion regarding investment selection and trade execution in the Fiduciary Services program.

If the ETF or other investments utilized increase in value during any applicable wash sale period, this increase will result in ordinary income to you. You agree that there is no guarantee that "harvesting" requests received late in a calendar year will be completed before year-end or that "harvesting" will achieve any particular tax result. Tax "harvesting" may adversely impact investment performance. You acknowledge that neither MSSB, Manager nor any affiliate make any guarantee that tax "harvesting" will be successful or provide any tax advice, and that you will consult with your own tax advisor regarding tax "harvesting" or any other tax issues.

Such tax harvesting may entail decisions which deviate from a manager's overall investment strategy. As a result: (i) the account may not receive the benefits, including gains and avoided losses, of certain recommended purchases and sales of securities; and (ii) the account's composition and performance may vary significantly from that of client accounts for which similar tax harvesting services have not been selected.

In the Fiduciary Services program, clients should contact their Financial Advisor for additional details. For the CES, IMS and PWM MAP programs, clients should contact their manager directly.

***Other Tax and Legal Considerations.*** In the programs described in this brochure, replacing a manager may result in sales of securities and subject you to additional income tax obligations. Consult your independent tax or legal advisor with respect to the services described in this Brochure, as MSSB and its affiliates do not provide tax or legal advice.

Some managers may include Master Limited Partnerships (MLPs) in their portfolios. Investment in MLPs entails different risks, including tax risks, than is the case for other types of investments. Investors in MLPs hold "units" of the MLP (as opposed to a share of corporate stock) and are technically partners in the MLP. Holders of MLP units are also exposed to the risk that they will be required to repay amounts to the MLP that are wrongfully distributed to them. Almost all MLPs have chosen to qualify for partnership tax treatment. Partnerships do not pay U.S. federal income tax at the partnership level. Rather, each partner of a partnership, in computing its U.S. federal income tax liability, must include its allocable share of the partnership's income, gains, losses, deductions, expenses and credits. A change in current tax law, or a change in the business of a given MLP, could result in an MLP being treated as a corporation for U.S. federal income tax purposes, which would result in such MLP being required to pay U.S. federal income tax on its taxable income. The classification of an MLP as a corporation for U.S. federal income tax purposes would have the effect of reducing the amount of cash available for distribution by the MLP and could cause any such distributions received by the an investor to be taxed as dividend income. If you have any questions about the tax aspects of investing into an MLP, please discuss with your tax advisor.

Investors in MLP portfolios will receive a Schedule K-1 for each MLP in the portfolio, so they will likely receive numerous Schedule K-1s. Investors will need to file each Schedule K-1 with their federal tax return. Also, investors in MLP portfolios



may be required to file state income tax returns in states where the MLPs in the portfolio operate. Since some Schedule K-1s may not be provided until after the due date for the federal or state tax return, investors in MLP portfolios may need to obtain an extension for filing their federal or state tax returns. Please discuss with your tax advisor how an investment in MLPs will affect your tax return.

Tax laws impacting MLPs may change, and this could impact any tax benefits that may be available through investment in an MLP portfolio.

**For the reasons outlined below, where an otherwise tax exempt account (such as an IRA (as defined below), qualified retirement plan, charitable organization, or other tax exempt or deferred account) is invested in a pass through entity (such as a MLP), the income from such entity may be subject to taxation, and additional tax filings may be required. Further, the tax advantages associated with these investments are generally not realized when held in a tax-deferred or tax exempt account. Please consult your own tax advisor, and consider any potential tax liability that may result from such an investment in an otherwise tax exempt account.**

Earnings generated inside most qualified retirement plans, including defined benefit pension plans, defined contribution plans and individual retirement accounts (“IRAs”), are generally exempt from federal income taxes, however, certain investments made by such retirement plans may generate taxable income referred to as “unrelated business taxable income” (“UBTI”) that is subject to taxation at trust rates. Generally, passive types of income (when not financed with debt) such as dividends, interest, annuities, royalties, most rents from real property, and gains from the sale, exchange or other disposition of property (other than inventory or property held for sale in the ordinary course of a trade or business) do not generate UBTI. Active income associated with operating a trade or business, however, may constitute UBTI to an otherwise tax exempt investor such as a qualified retirement plan. In addition, UBTI may also be received as part of an investor’s allocable share of active income generated by a pass-through entity, such as partnerships (including limited partnerships and MLPs), certain trusts, subchapter S corporations, and limited liability companies that are treated as disregarded entities, partnerships, or subchapter S corporations for federal income tax purposes.

If more than \$1,000 of unrelated trade or business gross income is generated in a tax year, the retirement plan’s custodian or fiduciary (on behalf of the retirement plan) must file an Exempt Organization Business Income Tax Return, Form 990-T. With respect to an individual investing through an IRA, in calculating the threshold amount and the retirement plan’s UBTI for the year, each IRA is generally treated as a separate taxpayer, even if the same individual is the holder of multiple IRAs.

The passive activity loss limitation rules also apply for purposes of calculating a retirement plan’s UBTI, potentially limiting the amount of losses that can be used to offset the retirement plan’s income from an unrelated trade or business each year. It should be noted that these rules are applied to publicly traded partnerships, such as MLPs, on an entity-by-entity basis,

meaning that the passive activity losses generated by one MLP generally can only be used to offset the passive activity income (including unrelated traded or business income) from the same MLP. The passive activity losses generated by one MLP generally cannot be used to offset income from another MLP (or any other source). The disallowed losses are suspended and carried forwarded to be used in future years to offset income generated by that same MLP. However, once the retirement plan disposes of its entire interest in the MLP to an unrelated party, the suspended losses can generally be used to offset any unrelated trade or business income generated inside the retirement plan (including recapture income generated on the sale of the MLP interest, as well as income generated by other MLPs).

In calculating the tax, trust tax rates are applied to the retirement plan’s UBTI (i.e., unrelated trade or business gross income less any applicable deductions, including the \$1,000 specific deduction). In addition to the passive loss limitation rules noted above, other limitations may apply to the retirement plan’s potential tax deductions. In order to file Form 990-T, the retirement plan is required to obtain an Employer Identification Number (“EIN”) because the plan (and not the plan owner or fiduciary) owes the tax. State and local income taxes may also apply. Accordingly, retirement plan investors (and their fiduciaries) should consult their tax and legal advisors regarding the federal, state, and local income tax implications of their investments.

Similar rules apply to other tax-exempt organizations (e.g., charitable and religious organizations), except that certain differences may apply. For instance, the UBTI of most other tax-exempt organizations is taxable at corporate rates, unless the organization is one that would be taxed as a trust if it were not tax-exempt in which case its UBTI is taxable at trust rates. Also, the passive activity loss limitation rules do not apply to all tax-exempt organizations. Tax-exempt investors should consult their tax and legal advisors regarding the federal, state, and local income tax implications of their investments.

## **Fees**

***Fiduciary Services Program Fees.*** You pay a single asset-based fee, charged quarterly, that covers the services provided by MSSB and the managers you select. The maximum annual fee rates are:

- 2.97% for equity (except index equity) and balanced accounts, and
- 2.82% for fixed income and index equity accounts.

We, on your behalf, pay part of the fee we receive from you to your selected manager(s) for the manager’s services provided to you. The amount of this payment is calculated on the value of assets in your account managed by that manager and depends on the investment strategy.

The following fee schedule applies to most managers (and other managers are being moved to it):

Strategy	Payment to managers (annualized)
Large Cap Equity Balanced	34 bps
All Cap Convertibles	36 bps
International Global Global Balanced	38 bps
Emerging Markets	40 bps
Mid Cap	40 bps
Small Cap SMID Cap	42 bps
Index Equity	28 bps
Real Estate Investment Trusts (REITs)	36 bps
Commodities	40 bps
Sector-Specific	40 bps
High Yield Fixed Income	32 bps
Preferred Securities	30 bps
Municipal Fixed Income	16-25 bps
Broad Market Fixed Income	28 bps
Core Fixed Income	23 bps
Hybrid Fixed Income	35 bps
Tactical Asset Allocation Global Tactical Asset Allocation	36 bps

We may change these amounts from time to time without notifying you.

If a manager's strategy does not fit within any of the investment strategies shown in the table above, we negotiate the fee rate with the manager. These negotiated fee rates are no lower than the lowest fee rate, and no higher than the highest fee rate, shown in the table above.

For equity (except index equity) and balanced accounts, we segregate 47 basis points of the fee we charge you (or, for fixed income and index equity accounts, 32 basis points of the fee) and apply some or all of it to the asset-based fee paid to managers described above. When the payment to a manager is less than the segregated amount (47 basis points or 32 basis points), we retain a larger part of the fee we charge you. Thus, we have an incentive to recommend managers that are paid less, because we retain a higher fee. If the payment to the manager is greater than the segregated amount, we support the fee to the manager and in effect retain a lesser part of the fee we charge you.

We do not pay any part of the segregated amount to Financial Advisors, who therefore have no direct financial incentive to recommend one manager over another manager offering the same type of strategy. However, Financial Advisors' compensation is directly affected by the size of your annual fee.

**CES and IMS Fees.** You pay MSSB and the manager separately for the services each provides in the CES or IMS program.

You may pay us for our services by:

- an asset-based fee (at a maximum annual fee rate of 2.5% for CES and a maximum annual fee rate of 2% for IMS) or
- directed brokerage (i.e. paying commission on a transaction-by-transaction basis). Our separate Firm Brochure about the CES and IMS programs, available from your Financial Advisor, describes the directed brokerage fee option.

Alternatively, in some cases, CES clients may negotiate an annual fixed dollar amount, paid quarterly.

Each manager charges you a separate fee for its services. We do not pay the manager any part of the fee or other compensation you pay to us.

**PWM MAP Fees.** You pay MSSB and the manager separately for the services each provides in PWM MAP. You pay us an asset-based fee for our services at a maximum annual fee rate of 2.5%.

Each manager charges you a separate fee for its services. We do not pay the manager any part of the fee or other compensation you pay to us.

**Fees are Negotiable.** Fees for the programs described in this Brochure are negotiable based on a number of factors (including the type and size of the account and the range of services we provide). In special circumstances, and with the client's agreement, the fee charged to a client for an account may be more than the maximum annual fee stated in this section.

**Minimum Fee.** Effective July 1, 2014, there is a minimum annual MSSB Fee (calculated quarterly) for each of the programs described in this Brochure that was opened after June 30, 2009. This minimum is the lesser of 2% or \$250 per year. This minimum will not apply to any account that (when added to any other Consulting Group accounts with which it is related for billing purposes) has a total of \$500,000 or more in assets as of the end of the previous billing quarter.

**When Fees are Payable.** The fee is payable as described in your client agreement. Generally, the initial fee is due in full on the date you open your account and is based on the market value of the account on that date. The initial fee payment covers the period from the opening date through (at your election) the last business day of the current quarter or the next full calendar quarter and is prorated accordingly. Thereafter, the fee is paid quarterly in advance based on the account's market value on the last business day of the previous calendar quarter and is due the following business day. Your client agreement authorizes MSSB to deduct fees, when due, from the assets in the account.

You may terminate participation in the programs described in this Brochure at any time by giving oral or written notice to MSSB. If participation in any of the programs described in this

Brochure is terminated, any advisory fees paid in advance will be refunded on a pro-rata basis.

**Breakpoints.** Fees may be a fixed rate applying to all assets in your account or a schedule of rates applying to different asset levels or “breakpoints.” When the fee is expressed as a schedule of rates corresponding to different breakpoints, any discounts are negotiated separately for each breakpoint. As the value of account assets reaches the various breakpoints, the incremental assets above each threshold are charged the applicable rates. The effective fee rate for the account as a whole is then a weighted average of the scheduled rates, and may change with the account asset level.

Each manager and strategy you hold in the programs described in this Brochure is held in a separate account, even if held in the same program.

**Accounts Related for Billing Purposes.** When two or more investment advisory accounts are related together for billing purposes, you can benefit even more from existing breakpoints. If you have two accounts, the “related” fees on Account #1 are calculated by applying your total assets (i.e. assets in Account #1 + assets in Account #2) to the Account #1 breakpoints. Because this amount is greater than the amount of assets solely in Account #1, you may have a greater proportion of assets subject to lower fee rates, which in turn lowers the average fee rate for Account #1. This average fee rate is then multiplied by the actual amount of assets in Account #1 to determine the dollar fee for Account #1. Likewise, the total assets are applied to the Account #2 breakpoints to determine the average fee rate for Account #2, which is then multiplied by the actual amount of assets in Account #2 to determine the dollar fee for Account #2.

Only certain accounts may be related for billing purposes, based on the law and our policies and procedures. Even where accounts are eligible to be related, they will only be related if this is specifically agreed between you and your Financial Advisor.

**ERISA Fee Disclosure for Qualified Retirement Plans.** In accordance with Department of Labor regulations under Section 408(b)(2) of ERISA, MSSB is required to provide certain information regarding our services and compensation to assist fiduciaries and plan sponsors of those retirement plans that are subject to the requirements of ERISA in assessing the reasonableness of their plan’s contracts or arrangements with us, including the reasonableness of our compensation. This information (the services we provide as well as the fees) is provided to you at the outset of your relationship with us and is set forth in your advisory contract with us (including the Fee table, other exhibits and, as applicable, this document), and then at least annually to the extent that there are changes to any investment-related disclosures for services provided as a fiduciary under ERISA.

**Other.** A portion of the MSSB Fee will be paid to your Financial Advisor. See Item 4.D below (Compensation to Financial Advisors), for more information.

## B. Comparing Costs

Program fees vary across different programs. You may be able to obtain similar services separately for a lower fee from MSSB or elsewhere. Several factors determine whether it would cost more or less to participate in a program than to purchase the services separately (including the size of your account, the types of investments, whether the investments involve costs in addition to the program fee, and the amount of trading in the account). In addition, you may be able to obtain certain services or gain access to particular securities for a lower fee in one program as opposed to another.

You should consider these and other differences when deciding whether to invest in an investment advisory or a brokerage account and, if applicable, which advisory programs best suit your individual needs.

## C. Additional Fees

If you open an account in one of the programs described in this Brochure, you will pay us an asset-based fee for our services including, where applicable, custody of securities and trade execution through MSSB. The program fees do not cover:

- the costs of investment management fees and other expenses charged by funds (see below for more details)
- “mark-ups,” “mark-downs,” and dealer spreads that (A) we or our affiliates may receive when acting as principal in certain transactions where permitted by law or (B) other broker-dealers may receive when acting as principal in certain transactions effected through us and/or our affiliates acting as agent, which is typically the case for dealer market transactions (e.g., fixed income and over-the-counter equity)
- brokerage commissions or other charges resulting from transactions not effected through us or our affiliates
- MSSB account establishment or maintenance fees for IRAs and Versatile Investment Plans (“VIP”), which are described in the respective IRA and VIP account and fee documentation (which may change from time to time)
- account closing/transfer costs
- processing fees or certain other costs or charges that may be imposed by third parties (including, among other things, odd-lot differentials, transfer taxes, foreign custody fees, exchange fees, supplemental transaction fees, regulatory fees and other fees or taxes that may be imposed pursuant to law).

## Funds in Advisory Programs

Investing in strategies that invest in mutual funds and ETFs (such mutual funds and ETFs collectively, “Funds”) is more expensive than other investment options offered in your advisory account. In addition to our fee, you pay the fees and expenses of the Funds in which your account is invested. Fund fees and expenses are charged directly to the pool of assets the Fund invests in and are reflected in each Fund’s share price. These fees and expenses are an additional cost to you and are not included in the fee amount in your account statements. Each mutual fund and ETF expense ratio (the total amount of fees and

expenses charged by the Fund) is stated in its prospectus. The expense ratio generally reflects the costs incurred by shareholders during the mutual fund's or ETF's most recent fiscal reporting period. Current and future expenses may differ from those stated in the prospectus.

You do not pay any sales charges for purchases of mutual funds in the program described in this Brochure. However, some mutual funds may charge, and not waive, a redemption fee on certain transaction activity in accordance with their prospectuses.

***Payments from Funds for Non-Retirement Plan Clients.*** MSSB receives payments and fees for recordkeeping and related services, which are more fully described below. These expense payments and administrative fees may be viewed in part as a form of revenue-sharing if and to the extent that they exceed expenses or what the mutual funds would otherwise have paid for these services.

***Expense Payments.*** Fund families are typically provided with opportunities to sponsor meetings and conferences and are granted access to our branch offices and Financial Advisors for educational, marketing and other promotional efforts. Fund representatives may work closely with our branch offices and Financial Advisors to develop business strategies and plan promotional and educational activities. In addition, MSSB typically receives payments from funds or their affiliates in connection with these promotional efforts to help offset expenses incurred for sales events and training programs as well as client seminars, conferences and meetings. Such expenses may include meeting or conference facility rental fees and hotel, meal and travel charges. Funds or their affiliated service providers may make these payments directly to MSSB or pay vendors for these services on our behalf.

Although fund companies independently decide what they will spend on these activities, certain fund families (referred to as "Global Partners" or "Emerging Partners") dedicate significant financial and staffing resources to these efforts and may receive supplemental sales information and additional opportunities to sponsor firm events and promote their funds to our Financial Advisors and clients. Moreover, Global and Emerging Partners commit to provide expense payments at predetermined amounts (currently \$750,000 per year for Global Partners and \$350,000 per year for Emerging Partners). These facts present a conflict of interest for MSSB and our Financial Advisors to focus on those funds offered by our Global and Emerging Partners when recommending mutual fund investments to clients instead of on funds from fund families that do not commit similar resources to educational, marketing and other promotional efforts. In order to mitigate this conflict, Financial Advisors and their Branch Office Managers do not receive additional compensation for recommending fund families sponsored by our Global or Emerging Partners. Global and Emerging Partners may present a certain number of funds or other products to the CG Investment Advisor Research Group ("CG IAR") subject to a shorter timeline for CG IAR to begin its review of such products if there is a backlog at the time the fund or product is being considered. However, products and funds offered by Global and Emerging Partners are subjected to the same CG IAR due diligence process and standards as all other investment products

and are not given preference in terms of approval by CG IAR for offering in MSSB advisory programs.

MSSB selects the Global and Emerging Partners fund families based on a number of quantitative and qualitative criteria. Our Global Partners are denoted by an asterisk on the Revenue-Sharing Fund Families list available by going to our website, <http://www2.morganstanley.com/wealth/investmentsolutions/mutualfunds.asp> and clicking on "Important Information about Mutual Funds" – "Revenue Sharing Arrangements".

Fund family representatives are allowed to occasionally give nominal gifts to Financial Advisors, and to occasionally entertain Financial Advisors (subject to an aggregate entertainment limit of \$1,000 per employee per fund family per year). MSSB's non-cash compensation policies set conditions for each of these types of payments and do not permit any gifts or entertainment conditioned on achieving any sales target.

***Administrative Service Fees.*** MSSB and/or its affiliates receive compensation from funds or their affiliated service providers for providing certain recordkeeping and related services to the funds. These charges are typically based upon the number or aggregate value of client positions and the levels of services provided. We process transactions with certain fund families on an omnibus basis, which means we consolidate our clients' trades into one daily trade with the fund, and therefore maintain all pertinent individual shareholder information to the fund. Trading in this manner requires that we maintain the transaction history necessary to track and process sales charges, annual service fees and deferred sales charges for each position as applicable, as well as other transaction details required for ongoing position maintenance purposes. For these services, funds pay up to 0.16% (\$16 per \$10,000) on fund assets held by non-retirement investors in the advisory program covered by this Brochure.

In addition to the omnibus accounting services that we provide for the funds, we are also responsible for delivery of disclosure documents; processing of dividend distributions; tax reporting functions on their behalf.

Notwithstanding the foregoing, MSSB does not receive such payments in relation to those clients that are qualified employee benefit plans, as defined under ERISA, IRAs described in Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code") or a plan or other arrangement subject to fiduciary and prohibited transaction requirements of substantially similar state, local or foreign law (each, a "Retirement Plan").

Mutual fund companies that do not agree to make these payments do not receive the same level of access to our firm.

In addition to the program fee paid by you, MSSB and its affiliates may also receive investment management fees and related administrative fees from affiliated Mutual Funds where the Mutual Funds' investment adviser is a MSSB affiliate.

For more information, please refer to the document "Mutual Fund Share Classes and Compensation", at [http://www2.morganstanley.com/wealth/investmentsolutions/pdf/MF\\_share\\_classes.pdf](http://www2.morganstanley.com/wealth/investmentsolutions/pdf/MF_share_classes.pdf) and also available from your Financial Advisor on request. Certain Funds are sponsored or managed by, or receive other services from, affiliates of MSSB. Since

the affiliated sponsor or manager (or other service provider) receives additional investment management fees and other fees, MSSB has a conflict to recommend MSSB affiliated Funds.

**Share classes.** Mutual Fund companies typically offer different ways to buy Mutual Fund shares. Some Mutual Funds only offer one share class for a particular fund while some funds offer many types of shares classes. In addition to the more broadly known retail share classes (A, B and C shares), fund companies have developed additional types of specialized share classes designed for specific advisory programs. If available, clients' shares are converted into the share class required by the Mutual Fund for the applicable type of account. Depending on the circumstances, clients' shares are converted into a share class that has a lower or a higher expense ratio. Advisory share classes usually have a lower expense ratio than the share classes that MSSB previously offered in the program. However, we may continue to offer non-advisory share classes if, for example, there is no equivalent advisory share class available or we believe that the non-advisory share class is likely to be the most cost effective share class. Once we make an advisory share class available for a particular Mutual Fund, clients can only buy the advisory class shares (not the non-advisory class shares) of that Mutual Fund in the program.

If available, we (without notice to you) will convert any Mutual Fund in your account to a share class of the same Mutual Fund which is a load-waived or no-load share class such as an Institutional share or Financial Intermediary Share, or to a share class that is available only to investment advisory clients (collectively, an "Investment Advisory Share"), to the extent available.

The manager you invest in may purchase certain mutual funds on your behalf. The funds may include:

- mutual funds available only to managed account clients and that do not charge fund-level investment advisory, management or administration fees ("Managed Account Funds") or
- other mutual funds.

The Managed Account Fund shares will be redeemed, and other mutual fund shares held in your account may be redeemed, on a manager change or account termination, or on a transfer of such mutual fund shares out of your managed account. For a taxable account, there will be tax consequences associated with the redemption.

On termination of your account for any reason, or the transfer of Mutual Fund shares out of your account into another account including a MSSB retail brokerage account, if, at the time of termination or transfer, your account includes Investment Advisory Shares or Managed Account Funds, we may convert these funds to a share class that is available in non-advisory accounts (even though the expense ratio for that share class may be higher than the expense ratio for the share class of the fund previously held in your account), or we may redeem these Mutual Fund shares. The non-advisory Mutual Fund share class generally has higher operating expenses than the corresponding Investment Advisory Share, which may negatively impact investment performance.

If a manager uses an open or closed end mutual fund or an exchange-traded fund, any such Fund may pay its own separate investment advisory fees and other expenses to the fund manager or other service provider. In addition, an open-end mutual fund may charge distribution or servicing fees. In both cases, these fees or expenses will be in addition to the fee you pay to us or the manager on your account.

### Cash Sweeps

Generally, some portion of your account will be held in cash. If MSSB acts as custodian for your account, it will effect "sweep" transactions of uninvested cash and allocations to cash, if any, in your account into:

- interest-bearing bank deposit accounts ("Deposit Accounts") established under the Bank Deposit Program ("BDP") or
- money market mutual funds (each, a "Money Market Fund" and, together with BDP Deposit Accounts, "Sweep Investments"). The Money Market Funds are managed by Morgan Stanley Investment Management Inc. or another MSSB affiliate.

If you do not select a Sweep Investment when you open your account, your Sweep Investment will be BDP if you are eligible.

You acknowledge that MSSB may with 30 days written notice (i) make changes to these sweep terms; (ii) make changes to the terms and conditions of any available sweep investment; (iii) change, add or delete the products available as a sweep option; (iv) transfer your sweep investment from one sweep product to another.

Clients that are considered Retirement Plans or are Coverdell Education Savings Accounts should read the Exhibit to this Brochure ("Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement").

The custodian will effect sweep transactions only to the extent permitted by law and if you meet the Sweep Investment's eligibility criteria.

**Bank Deposit Program.** Through the Bank Deposit Program, Deposit Accounts are established for you at one or more of the following banks (individually and collectively, the "Sweep Banks"): (i) Morgan Stanley Bank, N.A. and/or (ii) Morgan Stanley Private Bank, National Association. The Sweep Banks are affiliated with MSSB. The Sweep Banks pay interest on the Deposit Accounts established under the BDP. Your deposits at the Sweep Banks will be insured by the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits, in accordance with FDIC rules, and subject to aggregation of all the accounts (including certificates of deposit) that you hold at the Sweep Banks in the same capacity. Bank deposits held through the BDP are not covered by SIPC or excess coverage.

If BDP is your Sweep Investment, you authorize us, as your agent, to establish the Deposit Accounts for you, and to make deposits into, withdrawals from and transfers among the Deposit Accounts.

Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which will be provided to you upon your first investment in the Bank Deposit Program. You may also obtain the Bank Deposit Program Disclosure Statement as well as current interest rates applicable to your account, by contacting your Financial Advisor or through MSSB's web site at [www.morganstanley.com/wealth/services/bankdepositprogram.asp](http://www.morganstanley.com/wealth/services/bankdepositprogram.asp). We may amend the list of Sweep Banks at any time with 30 days written notice to you. If you are participating in the Bank Deposit Program, please read the Bank Deposit Program Disclosure Statement carefully.

Please note the following: (i) you are responsible to monitor the total amount of deposits you have at each Sweep Bank in order to determine the extent of FDIC insurance coverage available to you; and (ii) MSSB is not responsible for any insured or uninsured portion of your deposits at any of the Sweep Banks.

If BDP is your Sweep Investment, you should be aware that each Sweep Bank will pay MSSB a fee equal to the percentage of the average daily deposit balances in your Deposit Account at the Sweep Banks. Your Financial Advisor will not receive a portion of these fees or credits. In addition, MSSB will not receive cash compensation or credits in connection with the BDP for assets in the Deposit Accounts for Retirement Plans or Coverdell Education Savings accounts. Also, the affiliated Sweep Banks have the opportunity to earn income on the BDP assets through lending activity, and that income is usually significantly greater than the fees MSSB earns on affiliated Money Market Funds. Thus, MSSB has a conflict of interest in selecting or recommending BDP as the Sweep Investment, rather than an eligible Money Market Fund.

**Unless otherwise specifically disclosed to you in writing, such as in connection with the Bank Deposit Program noted above, investments and services offered through MSSB are not insured by the FDIC, are not deposits or other obligations of, or guaranteed by, the Sweep Banks, and involve investment risks, including possible loss of the principal invested.**

**Money Market Funds.** We may, in our sole discretion, offer Money Market Funds as Sweep Investments. The Money Market Funds are affiliated with MSSB. You understand that purchases and redemptions of Money Market Fund shares may be effected only through MSSB and that you may not directly access the Money Market Fund.

If a Money Market Fund is your Sweep Investment, you authorize us, as your agent, to make investments in, and redemptions from, the Money Market Fund.

Each of these Money Market Funds is a separate investment with different investment objectives. Their fees, expenses, minimum investment requirements, dividend policies and procedures may vary. Before you invest in any Money Market Fund, read its prospectus carefully. Money Market Fund shares are neither insured nor protected by the FDIC. Investment in any Money Market Fund is a purchase of securities issued by the Money Market Fund, not a bank deposit.

Certain of the Money Market Funds described above have minimum investment requirements. In addition, MSSB may require a minimum initial investment to activate some or all of the Sweep Investments. If you do not meet the minimum initial investment, uninvested cash and allocations to cash in eligible accounts will remain uninvested or be invested in the BDP.

In addition, certain of the Money Market Funds have minimum balance requirements. For eligible accounts, if your investment falls below the minimum balance requirement, MSSB may redeem and reinvest all of your shares in the BDP. Once your sweep option has been changed, we will not automatically change it back to your previous Sweep Investment even if you meet the minimum initial investment and/or balance requirements. You must contact your Financial Advisor to do so. However, if a pattern develops of falling below the minimum balance requirement, we may preclude you from investing in that Sweep Investment in the future.

We may offer other money market funds as a non-sweep investment choice. You may purchase shares in these money market funds by giving specific orders for each purchase to your Financial Advisor. However, uninvested cash in your account will not be swept into these money market funds.

Since the Money Market Funds are sponsored or managed by MSSB affiliates, those MSSB affiliates receive advisory fees and may receive other fees from the Money Market Funds if your account cash balances are invested in the Money Market Funds. Therefore, MSSB has a conflict of interest in selecting or recommending the Money Market Funds as your Sweep Investment. For Retirement Plans with cash balances invested in Money Market Funds sponsored or managed by MSSB affiliates, certain fees received and retained by such MSSB affiliates will be credited to the account or offset against the advisory program fee. Please see the attached Exhibit "Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement" for more details.

The above provisions may not apply if you are not a U.S. resident. If you are not a U.S. resident, please contact your Financial Advisor to determine whether the BDP or a Money Market Fund will be your default Sweep Investment.

## **D. Compensation to Financial Advisors**

If you invest in one of the programs described in this Brochure, we allocate to your Financial Advisor, on an ongoing basis, part of the fees payable to us in connection with your account. The Financial Advisor may receive different compensation depending on which program you invest in, the asset class within a program that you select (e.g. equity vs. fixed income), and the rate and amount of your fee. The amount we allocate to your Financial Advisor in connection with accounts opened in programs described in this Brochure may be more than if you participate in other MSSB investment advisory programs, or if you pay separately for investment advice, brokerage and other services. The rate of compensation we pay Financial Advisors with respect to program account fees may be higher than the rate we pay Financial Advisors on trades executed in transaction-based brokerage accounts. Your Financial Advisor may therefore have a financial incentive to recommend one of the

programs in this Brochure (or asset classes within a program) instead of other MSSB programs or services.

If you invest in one of the programs described in this Brochure, your Financial Advisor may charge a fee less than the maximum fee stated above. The amount of the fee you pay is a factor we use in calculating the compensation we pay your Financial Advisor. Therefore, Financial Advisors have a financial incentive not to reduce fees. If your fee rate is below a certain threshold, we give your Financial Advisor credit for less than the total amount of your fee in calculating his or her compensation. Therefore, Financial Advisors also have a financial incentive not to reduce fees below that threshold.

## Item 5: Account Requirements and Types of Clients

**Account Minimums.** In the Fiduciary Services program, the account minimums are generally:

- \$100,000 for most equity, balanced and taxable fixed income accounts and
- \$250,000 or higher for most municipal bond, high yield and tax-efficient equity accounts.

Minimums may vary by manager.

In CES, IMS and MAP, minimum account sizes are set by each manager and generally range from \$250,000 to \$5 million or higher.

**Types of Clients.** Our clients include individuals, trusts, banking or thrift institutions, pension and profit sharing plans, plan participants, other pooled investment vehicles (e.g., hedge funds), charitable organizations, corporations, other businesses, state or municipal government entities, investment clubs and other entities.

## Item 6: Portfolio Manager Selection and Evaluation

### A. Selection and Review of Portfolio Managers for the Programs

#### Fiduciary Services and CES Programs

In the Fiduciary Services and CES programs, we offer a wide range of investment managers that we have selected and approved. Section Item 4.A above describes the basis on which we recommend particular managers to particular clients. This Item 6.A describes more generally how we select and terminate managers from the Fiduciary Services and CES programs. If managers have more than one strategy, we may include only some of those strategies in the programs described in this Brochure, may carry different strategies in different programs, and assign different statuses to different strategies.

CG IAR evaluates managers. Managers may only participate in the Fiduciary Services or CES programs if they are on CG

IAR's Focus List or Approved List discussed below. You may obtain these lists from your Financial Advisor. In each program, only some of the managers on the Focus List and Approved List may be available. (The mutual funds and ETFs on the Focus List and Approved List are not offered in the Fiduciary Services and CES programs.)

As well as requiring managers to be on the Focus List or Approved List, we look at other factors in determining which managers we offer in these programs, including:

- program needs (such as whether we have a sufficient number of managers available in an asset class)
- client demand and
- the manager's minimum account size.

We automatically terminate managers in the Fiduciary Services and CES programs if CG IAR downgrades them to "Not Approved." We may terminate managers from these programs for other reasons (i.e., the manager has a low level of assets under management in the program, the manager has limited capacity for further investment, or the manager is not complying with our policies and procedures).

**Focus List.** To be considered for the Focus List, a manager provides CG IAR with relevant documentation on the strategy being evaluated, which may include sample portfolios, asset allocation histories, its Form ADV (the form that investment managers use to register with the SEC), past performance information and marketing literature. For verification purposes, as part of the review process CG IAR may compare the manager's reported performance with the performance of a cross-section of actual accounts calculated by CG IAR. CG IAR personnel may also interview the manager and its key personnel, and examine its operations. Following this review process, managers are placed on the Focus List if they meet the required standards for Focus List status.

CG IAR periodically reviews managers on the Focus List. CG IAR considers a broad range of factors (including investment performance, staffing, operational issues and financial condition). Among other things, CG IAR personnel interview each manager periodically to discuss these matters. If CG IAR is familiar with a manager following repeated reviews, CG IAR is likely to focus on quantitative analysis and interviews and not require in-person meetings. CG IAR may also review the collective performance of a composite of the MSSB accounts managed by a manager and compare this performance to overall performance data provided by the manager, and then investigate any material deviations.

**Approved List.** The process for considering managers for the Approved List is less comprehensive, and evaluates various qualitative and quantitative factors. These include personnel depth, turnover and experience; investment process; business and organization characteristics; and investment performance. CG IAR may use an algorithm – a rules-based scoring mechanism – that reviews various qualitative and quantitative factors and ranks each manager in a third party database. (Not all managers reviewed for the Approved List are subject to this algorithm.) CG IAR analysts analyze the information



contained in the algorithm to gauge the completeness and consistency of the data which drive the rankings, and then send the manager additional information requests. CG IAR then determines whether the manager meets the standards for Approved List status. Furthermore, CG IAR may evaluate a manager under the evaluation process for the Focus List but then decide to instead put it on the Approved List.

CG IAR periodically evaluates managers on the Approved List to determine whether they continue to meet the Approved List standards.

***Changes in Status from Focus List to Approved List.*** In light of the differing evaluation methodology and standards for the Focus List and Approved List, CG IAR may determine that a manager no longer meets the criteria for the Focus List or will no longer be reviewed under the Focus List review process, but meets the criteria for the Approved List. If so, MSSB generally notifies program clients regarding such status changes on a quarterly basis in their client statements.

***Changes in Status to Not Approved.*** CG IAR may determine that a manager no longer meets the criteria under either evaluation process and therefore the manager will no longer be recommended in MSSB investment advisory programs. We notify affected clients of these downgrades. You cannot retain downgraded managers in your Fiduciary Services or CES accounts and must select a replacement from the Approved List or Focus List, and that is available in the program, if you wish to retain the program's benefits in respect of the affected assets.

In some circumstances, you may be able to retain terminated managers in another advisory program or in a brokerage account subject to the regular terms and conditions applying to that program or account. Ask your Financial Advisor about these options.

In the Fiduciary Services and CES programs, MSSB generally specifies a replacement manager for a terminated manager (as discussed in Item 4.A above). In selecting the replacement manager, CG IAR generally looks for a manager in the same asset class, and with similar attributes and holdings to the terminated manager.

***Evaluation of Material Changes to Sub-Managers or Investment Products.*** If CG IAR learns of a material change to a manager or Investment Product (e.g., the departure of an Investment Manager or Manager Team), MSSB, an affiliate or a third party retained by MSSB or an affiliate, will evaluate the manager or Investment Product in light of the change. This evaluation may take some time to complete. While this evaluation is being performed, the manager or Investment Product will remain eligible for Fiduciary Services and CES. The CG IAR designation (Focus List or Approved List) for the manager or Investment Product will not be altered solely because this evaluation is in progress. MSSB will not necessarily notify clients of any such evaluation.

***Watch Policy.*** CG IAR has a "Watch" policy for managers on the Focus List and Approved List. Watch status indicates that, in

reviewing a manager, CG IAR has identified specific areas of the manager's business that (a) merit further evaluation by CG IAR and (b) may, but are not certain to, result in the manager becoming "Not Approved." Putting a manager on Watch does not signify an actual change in CG IAR opinion nor is it a guarantee that CG IAR will downgrade the manager. The duration of a Watch status depends on how long CG IAR needs to evaluate the manager and for the manager to address any areas of concern. For additional information, ask your Financial Advisor for a copy of CG IAR's Watch Policy.

***Tactical Opportunities List.*** CG IAR also has a Tactical Opportunities List. This consists of certain managers on the Focus List or Approved List recommended for investment at a given time based in part on then-existing tactical opportunities in the market.

## **PWM MAP**

Managers in PWM MAP are reviewed by select teams in Morgan Stanley Private Wealth Management or Graystone Consulting ("Graystone"). (Graystone is an MSSB business unit providing a wide range of investment consulting services to institutional and high net worth individual clients. It is separate from the Morgan Stanley Private Wealth Management division.)

The reviewing team uses a proprietary tool that assesses all separate account managers in a third party database to narrow the list of potential investment managers for consideration. It then generally conducts further analysis on managers, focusing on qualitative factors (e.g., quality of investment professionals and the manager's investment process).

If the manager is being reviewed by a Private Wealth Management team, the Research Management Committee also reviews and, if appropriate, approves the manager. (The Research Management Committee reviews certain products made available in Consulting Group programs.) If the manager is being reviewed by a Graystone team, the Graystone Director of Institutional Investments reviews the due diligence for completeness. Once a manager has been approved by either reviewing team, it is available for PWM MAP, Graystone Consulting and certain other clients.

The reviewing team generally conducts periodic follow-up due diligence on approved managers (including follow-up interviews with the manager).

## **Other Relationships with Managers**

Some managers approved for use in programs in this ADV Brochure may have business relationships with us or our affiliates. For example, a manager may use MS&Co. or an affiliate as its broker or may be an investment banking client of MS&Co. or an affiliate. We do not consider the existence or lack of a business relationship in determining whether to approve or maintain a manager.

## **Calculating Portfolio Managers' Performance**

In the Fiduciary Services program, we generally present 10 years of a portfolio manager's performance history in reports available to clients. For periods before MSSB merged its SB Channel



and MS Channel, this performance history is based on the manager's performance in either the MS Channel Fiduciary Services program or the SB Channel Fiduciary Services program. We calculate this performance using both asset-weighted and equal-weighted monthly performance returns for the manager composite data.

We do not have a third party review this composite return data. Instead, we perform a monthly reconciliation on the individual accounts in the composite. We compare the monthly performance returns for individual accounts to the monthly performance returns for their peer accounts in the same investment style. We then review any outstanding "outliers" that have significantly higher or lower monthly performance returns than the average peer account in the same investment style.

If we do not have a performance track record for 10 years based on our own program data, we generally show performance data supplied by the manager for earlier periods so that you can see 10 years of performance. In this case, the manager determines the standards used to calculate this data.

We do not calculate composite manager performance in CES, IMS or PWM MAP.

## **B. Conflicts of Interest**

In the programs described in this Brochure, no affiliates, related persons or supervised persons of MSSB act as portfolio manager. However, MSSB has various conflicts of interest, described below.

**Advisory vs. Brokerage Accounts.** MSSB and your Financial Advisor may earn more compensation if you invest in a program described in this Brochure than if you open a brokerage account to buy individual securities (although, in a brokerage account, you would not receive all the benefits of the programs described in the Brochure). Financial Advisors and MSSB therefore have a financial incentive to recommend one of these programs described in this Brochure. We address this conflict of interest by disclosing it to you and by requiring Financial Advisors' supervisors to review your account at account-opening to ensure that it is suitable for you in light of matters such as your investment objectives and financial circumstances.

**Payments from Managers.** Managers may also sponsor their own educational conferences and pay expenses of Financial Advisors attending these events. MSSB's policies require that the training or educational portion of these conferences comprises substantially the entire event. Managers may sponsor educational meetings or seminars in which clients as well as Financial Advisors are invited to participate.

Managers are allowed to occasionally give nominal gifts to Financial Advisors, and to occasionally entertain Financial Advisors, subject to a limit of \$1,000 per employee per year. MSSB's non-cash compensation policies set conditions for each of these types of payments, and do not permit any gifts or entertainment conditioned on achieving a sales target.

We address conflicts of interest by ensuring that any payments described in this "Payments to Managers" section do not relate to any particular transactions or investment made by MSSB clients with managers. Managers participating in programs described in this brochure are not required to make any of these types of payments. The payments described in this section comply with FINRA rules relating to such activities. Please see the discussion of Global and Emerging Partners under "Funds in Advisory Programs" in Item 4.C for more information.

**Different Advice.** MSSB, MS&Co. and their affiliates may give different advice, take different action, receive more or less compensation, or hold or deal in different securities for any other party, client or account (including their own accounts or those of their affiliates) from the advice given, actions taken, compensation received or securities held or dealt for your account.

**Trading or Issuing Securities in, or Linked to Securities in, Client Accounts.** MSSB, MS&Co. and their affiliates may provide bids and offers, and may act as a principal market maker, in respect of the same securities held in client accounts. MSSB, the managers in its programs, MS&Co. and their affiliates and employees may hold a position (long or short) in the same securities held in client accounts. MSSB, MS&Co. and/or their affiliates are regular issuers of traded financial instruments linked to securities that may be purchased in client accounts. From time to time, the trading of MSSB, a manager or their affiliates – both for their proprietary accounts and for client accounts – may be detrimental to securities held by a client and thus create a conflict of interest. We address this conflict by disclosing it to you.

**Trade Allocations.** Your manager may aggregate the securities to buy or sell for more than one client to obtain favorable execution to the extent permitted by law. The manager is then responsible for allocating the trade in a manner that is equitable and consistent with its fiduciary duty to its clients (which could include, e.g., pro rata allocation, random allocation or rotation allocation). For block trade orders executed by MSSB, the price to each client is the average price for the aggregate order.

**Services Provided to Other Clients.** MSSB, MS&Co. managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts, and managers in the programs described in this Brochure. MSSB, managers, MS&Co. and their affiliates receive compensation and fees in connection with these services. MSSB believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account. Accordingly, it is likely that securities in an account will include some of the securities of companies for which MSSB, managers, MS&Co. and their affiliates perform investment banking or other services.

**Restrictions on Securities Transactions.** There may be periods during which MSSB or managers are not permitted to initiate or

recommend certain types of transactions in the securities of issuers for which MS&Co. or one of its affiliates is performing broker-dealer or investment banking services or has confidential or material non-public information. Furthermore, in certain investment advisory programs, MSSB may be compelled to forgo trading in, or providing advice regarding, Morgan Stanley Parent securities, and in certain related securities. These restrictions may adversely impact your account performance.

MSSB, the managers and their affiliates may also develop analyses and/or evaluations of securities sold in a program described in this Brochure, as well as buy and sell interests in securities on behalf of their proprietary or client accounts. These analyses, evaluations and purchase and sale activities are proprietary and confidential, and MSSB will not disclose them to clients. MSSB may not be able to act, in respect of clients' account, on any such information, analyses or evaluations.

MSSB, managers and their affiliates are not obligated to effect any transaction that they believe would violate federal or state law, or the regulations of any regulatory or self-regulatory body.

**Research Reports.** MS&Co. does business with companies covered by their respective research groups. Furthermore, MS&Co. and its affiliates and client accounts, may hold a trading position (long or short) in, the securities of companies subject to such research. Therefore, MS&Co. has a conflict of interest that could affect the objectivity of its research reports.

**Certain Trading Systems.** MSSB may effect trades on behalf of client accounts through exchanges, electronic communication networks or other alternative trading systems ("Trading Systems"), including Trading Systems in which MSSB or its affiliates may have a direct or indirect ownership interest, or on which MSSB or its affiliates may have a board seat. In certain instances, MSSB and/or its affiliates may be deemed to control one or more of such Trading Systems based on the level of such ownership interest, and whether MSSB or its affiliates are represented on the board of such Trading Systems. If MSSB directly or indirectly effects client trades through Trading Systems in which MSSB or its affiliates have an ownership interest, MSSB or its affiliates may receive an indirect economic benefit based on their ownership interest. In addition, subject at all times to its obligations to obtain best execution for its customers' orders, it is contemplated that MSSB will route certain customer order flow to its affiliates. Currently, MSSB and/or its affiliates (including affiliates of MS&Co.) own over 5% of the voting securities of certain Trading Systems, including BATS Global Markets, Inc. (commonly known as "BATS"); BIDS Holdings LLC (commonly known as "BIDS"); MTS Portugal; iSWAP; The MuniCenter; BOX Options Exchange, LLC; OTC DerivNet; and TradeWeb. The Trading Systems on which MSSB trades for client accounts and in which MSSB or its affiliates own interests may change from time to time. You may contact your Financial Advisor for an up-to-date list of Trading Systems in which MSSB or its affiliates own interests and on which MSSB and/or MS&Co. trades for client accounts.

Certain Trading Systems offer cash credits for orders that provide liquidity to their books and charge explicit fees for orders that extract liquidity from their books. From time to time,

the amount of credits that MSSB and/or MS&Co. receive from one or more Trading System may exceed the amount that is charged. Under these limited circumstances, such payments would constitute payment for order flow.

Certain Trading Systems through which MSSB and/or MS&Co. may directly or indirectly effect client trades execute transactions on a "blind" basis, so that a party to a transaction does not know the identity of the counterparty to the transaction. It is possible that an order for a client account that is executed through such a Trading System could be automatically matched with a counterparty that is (i) another investment advisory or brokerage client of MSSB or one of its affiliates or (ii) MSSB or one of its affiliates acting for its own proprietary accounts.

***Transaction-Related Agreements with MS&Co. and Affiliates.***

In connection with creating the joint venture, certain agreements were entered into between or involving some or all of MSSB, MS&Co. and their affiliates. Some of these agreements, including the following remain in effect even though MSSB is now a wholly owned subsidiary of Morgan Stanley Parent:

- **Order Flow.** An agreement that, subject to best execution, MSSB will transmit an agreed percentage of client orders for the purchase and sale of securities to MS&Co and its affiliates. MSSB has a conflict of interest in transmitting client orders to these entities.
- **Distribution.** An agreement that, in return for the payment of certain fees and expenses, MSSB will market and promote certain securities and other products underwritten, distributed or sponsored by MS&Co. or its affiliates. MSSB has a conflict of interest in offering, recommending or purchasing any such security or other product to or for its investment advisory clients.

**Affiliated Sweep Investments.** MSSB has a conflict of interest in selecting or recommending BDP or Money Market Funds as the Sweep Investment. See Item 4.C above for more information.

**Nonpublic Information.** In the course of investment banking or other activities, MSSB, the managers, and each of their respective affiliates and Agents may from time to time acquire confidential or material nonpublic information that may prevent them, for a period of time, from purchasing or selling particular securities for the account. You acknowledge and agree that MSSB, the managers, and each of their respective affiliates and Agents will not be free to divulge or to act upon this information with respect to their advisory or brokerage activities, including their activities with regard to the account. This may adversely impact the investment performance of the account.

**Benefits to Financial Advisors.** Client understands that MSSB or Financial Advisors or employees of MSSB affiliates may receive a financial benefit from any manager in the form of compensation for trade executions for the accounts of the manager or accounts that are managed by such manager or through referrals of brokerage or investment advisory accounts to MSSB or to the Financial Advisor or employees of MSSB affiliates by such manager. These managers may include a manager recommended to clients by the Financial Advisor or

employees of MSSB affiliates in any of the Consulting Group programs.

**Other Investment Products Available.** Client understands that managers may offer to the public other investment products such as mutual funds with similar investment styles and holdings as those investment products offered through the Consulting Group programs. Such products may be offered at differing fees and charges that may be higher or lower than the fees imposed by MSSB under a Consulting Group program.

**Block Trades.** Manager may direct some block trades to MSSB for execution, which blocks may include trades for other clients of MSSB and/or manager. Although MSSB executes these block trades at no commission, MSSB may obtain a benefit from executing these block trades, as a result of the increased trading volume attributable to these blocks.

**Consulting Group Trust Services.** MSSB has made arrangements to have a number of external trust companies participate in CG Trust Services. See Item 4.A above, for a full description of services and potential conflicts of interest.

## Item 7: Client Information Provided to Portfolio Managers

When you open a Fiduciary Services account, we send information about you and your account to the manager (including your name, whether or not your account is taxable, state/country of residence, your Investor Profile and restrictions). If you are an individual, we provide further information about you and your financial situation (which may include your contact details, social security number, date of birth, citizenship, occupation, net worth and income). We provide updated information to the manager when needed for the manager to manage your account (e.g. changes in restrictions on the securities, or categories of securities, that your account can hold).

In CES, IMS and MAP, the manager requests information from you, and any updates it requires from time to time. Your Financial Advisor may help you forward information in response to manager requests.

## Item 8: Client Contact with Portfolio Managers

We do not restrict you from contacting and consulting with your portfolio manager.

In the Fiduciary Services and program, we will use reasonable efforts to encourage the manager to be reasonably available to you and your Financial Advisor for consultation on the management of the account and your financial situation and investment objectives.

In the CES, IMS and MAP, you have a direct contractual relationship with the manager, and so may contact the manager to determine the consultation you may have with the manager.

## Item 9: Additional Information

### Disciplinary Information

This section contains information on certain legal and disciplinary events.

In this section, “MSDW” means Morgan Stanley DW Inc., a predecessor broker-dealer of MS&Co. and registered investment adviser that was merged into MS&Co. in April 2007. MS&Co. and CGM are predecessor broker-dealer firms of MSSB.

- In 2004, the NYSE brought an administrative action alleging that MS&Co. and MSDW (1) failed to ensure delivery of prospectuses in connection with certain sales of securities; (2) failed to timely and accurately file daily program trade reports; (3) erroneously executed certain sell orders on a minus tick for securities in which MS&Co. held a short position; (4) failed to timely submit RE-3 in connection with certain matters; (5) hired certain individuals subject to statutory disqualification and failed to file fingerprint cards for certain non-registered employees; (6) failed to comply with requirements concerning certain market-on-close and limit-on-close orders; and (7) failed to reasonably supervise certain activities. MS&Co. and MSDW resolved the action on January 7, 2005, by consenting, without admitting or denying guilt, to a censure, a fine of \$13 million, and a rescission offer to those clients who should have received a prospectus during the period from June 2003 to September 2004.
- In January 2005, the SEC filed a complaint in federal court alleging that, during 1999 and 2000, MS&Co. violated Regulation M by attempting to induce certain customers who received allocations of IPOs to place purchase orders for additional shares in the aftermarket. The SEC did not allege fraud or impact on the market. On January 25, 2005, MS&Co. agreed to the entry of a judgment enjoining MS&Co. from future violations and the payment of a \$40 million civil penalty. The settlement terms received court approval on February 4, 2005.
- In March 2005, the SEC entered an administrative and cease and desist order against CGM for two disclosure failures by CGM in offering and selling mutual fund shares. Firstly, CGM received from mutual fund advisers and distributors revenue sharing payments, in exchange for which CGM granted mutual funds preferential sales treatment. The order found that CGM did not adequately disclose its revenue sharing program to its clients, in violation of the Securities Act of 1933 (“Securities Act”) and Rule 10b-10 under the Securities Exchange Act of 1934 (“Exchange Act”). Secondly, on sales of Class B mutual fund shares in amounts aggregating \$50,000 or more, the order found that CGM, in violation of the Securities Act, failed to disclose adequately at the point of sale that such shares were subject to higher annual fees. These fees could have a negative impact on client investment returns, depending on the amount invested and the intended holding period. The SEC order censured CGM, required CGM to cease and desist from future violations of the applicable provisions, and required CGM to pay a \$20 million penalty.

- In March 2005, the NASD censured and fined CGM with respect to CGM's offer and sale of Class B and Class C mutual fund shares during 2002 and the first six months of 2003. The NASD found that CGM either had not adequately disclosed at the point of sale, or had not adequately considered in connection with its recommendations to clients to purchase Class B and Class C shares, the differences in share classes and that an equal investment in Class A shares generally would have been more advantageous for the clients. The NASD also found that CGM's supervisory and compliance policies and procedures regarding Class B and Class C shares had not been reasonably designed to ensure that SB Financial Consultants consistently provided adequate disclosure of, or consideration to, the benefits of the various mutual fund share classes as they applied to individual clients. The NASD censured CGM and required CGM to pay a \$6.25 million fine.
- On May 31, 2005, the SEC issued an order in connection with the settlement of an administrative proceeding against Smith Barney Fund Management LLC ("SBFM") and CGM relating to the appointment of an affiliated transfer agent for the Smith Barney family of mutual funds ("Smith Barney Funds"). SBFM was an affiliate of CGM during the applicable period.

The SEC order found that SBFM and CGM willfully violated section 206(1) of the Investment Advisers Act of 1940 ("Advisers Act"). Specifically, the order found that SBFM and CGM knowingly or recklessly failed to disclose to the Boards of the Smith Barney Funds in 1999 when proposing a new transfer agent arrangement with an affiliated transfer agent that: First Data Investors Services Group ("First Data"), the Smith Barney Funds' then-existing transfer agent, had offered to continue as transfer agent and do the same work for substantially less money than before; and Citigroup Asset Management ("CAM"), the Citi business unit that includes the Smith Barney Funds' investment manager and other investment advisory companies, had entered into a side letter with First Data under which CAM agreed to recommend the appointment of First Data as sub-transfer agent to the affiliated transfer agent in exchange, among other things, for a guarantee by First Data of specified amounts of asset management and investment banking fees to CAM and CGM. The order also found that SBFM and CGM willfully violated section 206(2) of the Advisers Act by virtue of the omissions discussed above and other misrepresentations and omissions in the materials provided to the Smith Barney Funds' Boards, including the failure to make clear that the affiliated transfer agent would earn a high profit for performing limited functions while First Data continued to perform almost all of the transfer agent functions, and the suggestion that the proposed arrangement was in the Smith Barney Funds' best interests and that no viable alternatives existed. SBFM and CGM did not admit or deny any wrongdoing or liability. The settlement did not establish wrongdoing or liability for purposes of any other proceeding.

The SEC censured SBFM and CGM and ordered them to cease and desist from violations of sections 206(1) and 206(2) of the Advisers Act. The order required Citi to pay \$208.1 million, including \$109 million in disgorgement of profits, \$19.1 million in interest, and a civil money penalty of \$80 million. Approximately \$24.4 million has already been paid to the Smith Barney Funds, primarily through fee waivers. The remaining \$183.7 million, including the penalty, has been paid to the U.S. Treasury.

The order required SBFM to recommend a new transfer agent contract to the Smith Barney Fund Boards within 180 days of the entry of the order; if a Citi affiliate submitted a proposal to serve as transfer agent or sub-transfer agent, an independent monitor must be engaged at the expense of SBFM and CGM to oversee a competitive bidding process. Under the order, Citi also must comply with an amended version of a vendor policy that Citi instituted in August 2004. That policy, as amended, among other things, requires that when requested by a Smith Barney Fund Board, CAM will retain at its own expense an independent consulting expert to advise and assist the Board on the selection of certain service providers affiliated with Citi.

- In a LAWC dated August 1, 2005, the NASD found that MSDW failed to establish and maintain a supervisory system, including written procedures, reasonably designed to review and monitor MSDW's fee-based brokerage business, between January 2001 and December 2003. Without admitting or denying the allegations, MSDW consented to the described sanctions and findings and was censured and fined \$1.5 million, and agreed to the payment of restitution to 3,549 customers in the total amount of approximately \$4.7 million, plus interest.
- The SEC alleged that MS&Co. violated the Exchange Act by inadvertently failing to timely produce emails to the SEC staff pursuant to subpoenas in the SEC's investigation into MS&Co.'s practices in allocating shares of stock in IPOs and an investigation into conflicts of interest between MS&Co.'s research and investment banking practices. Without admitting or denying the allegations, MS&Co. consented to a final judgment on May 12, 2006 in which it was permanently restrained and enjoined from violating the Exchange Act. MS&Co. agreed to make payments aggregating \$15 million, which amount was reduced by \$5 million contemporaneously paid by MS&Co. to the NASD and the NYSE in related proceedings. MS&Co. also agreed to notify the SEC, the NASD and the NYSE that it has adopted and implemented policies and procedures reasonably designed to ensure compliance with the Exchange Act. MS&Co. also agreed to provide annual training to its employees responsible for preserving or producing electronic communications and agreed to retain an independent consultant to review and comment on the implementation and effectiveness of the policies, procedures and training.
- On June 27, 2006, the SEC announced the initiation and concurrent settlement of administrative cease and desist proceedings against MS&Co. and MSDW for failing to maintain and enforce adequate written policies and

procedures to prevent the misuse of material nonpublic information. The SEC found that from 1997 through 2006, MS&Co. and MSDW violated the Exchange Act and the Advisers Act by failing to (1) conduct any surveillance of a number of accounts and securities; (2) provide adequate guidance to MS&Co.'s and MSDW's personnel charged with conducting surveillance; and (3) have adequate controls in place with respect to certain aspects of "Watch List" maintenance. The SEC's findings covered different areas from the 1997 through 2006 time period. MS&Co. and MSDW were ordered to pay a civil money penalty of \$10 million and agreed to enhance their policies and procedures.

- On August 21, 2006, MS&Co. and MSDW entered into a LAWC relating various finds that, at various times between July 1999 and 2005, MS&Co. violated a number of NASD and SEC rules. The violations related to areas including trade reporting through the Nasdaq Market Center (formerly Automated Confirmation Transaction Service (ACT)), Trade Reporting and Compliance Engine (TRACE) and Order Audit Trail System (OATS); market making activities; trading practices; short sales; and large options positions reports. The NASD also found that, at various times during December 2002 and May 2005, MSDW violated NASD rules and Municipal Securities Rulemaking Board ("MSRB") rules related to areas including trade reporting through TRACE, short sales, and OATS. The NASD further found that, in certain cases, MS&Co. and MSDW violated NASD Rule 3010 because their supervisory systems did not provide supervision reasonably designed to achieve compliance with securities laws, regulations and/or rules.

Without admitting or denying the findings, MS&Co. and MSDW consented to the LAWC. In the LAWC, MS&Co. and MSDW were censured, required to pay a monetary fine of \$2.9 million and agreed to make restitution to the parties involved in certain transactions, plus interest, from the date of the violative conduct until the date of the LAWC. MS&Co. and MSDW also consented to (1) revise their written supervisory procedures; and (2) provide a report that described the corrective action that they completed during the year preceding the LAWC to address regulatory issues and violations addressed in the LAWC, and the ongoing corrective action that they were in the process of completing.

- On May 9, 2007, the SEC issued an Order ("May 2007 Order") settling an administrative action with MS&Co. In this matter, the SEC found that MS&Co. violated its duty of best execution under the Exchange Act. In particular, the SEC found that, during the period of October 24, 2001 through December 8, 2004, MS&Co.'s proprietary market-making system failed to provide best execution to certain retail OTC orders. In December 2004, MS&Co. removed the computer code in the proprietary market-making system that caused the best execution violations. MS&Co. consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, to pay disgorgement of approximately \$5.9 million plus prejudgment interest on that amount, and to pay a civil penalty of \$1.5 million. MS&Co. also consented to retain an Independent Compliance Consultant to review its

policies and procedures in connection with its market-making system's order handling procedures and its controls relating to changes to those procedures, and to develop a better plan of distribution.

- On July 13, 2007, the NYSE issued a Hearing Board Decision in connection with the settlement of an enforcement proceeding brought in conjunction with the New Jersey Bureau of Securities against CGM. The decision held that CGM failed to (1) adequately supervise certain branch offices and Financial Advisors who engaged in deceptive mutual fund market timing on behalf of certain clients from January 2000 through September 2003 (in both proprietary and non-proprietary funds); (2) prevent the Financial Advisors from engaging in this conduct; and (3) make and keep adequate books and records. Without admitting or denying the findings, CGM agreed to (a) a censure; (b) establishing a \$35 million distribution fund for disgorgement payments; (c) a penalty of \$10 million (half to be paid to the NYSE and half to be paid to the distribution fund); (d) a penalty of \$5 million to be paid to the State of New Jersey; and (e) appointing a consultant to develop a plan to pay CGM's clients affected by the market timing.
- On September 27, 2007, MS&Co. entered into a LAWC with the Financial Industry Regulatory Authority ("FINRA"). FINRA found that, from October 2001 through March 2005, MSDW provided inaccurate information to arbitration claimants and regulators regarding the existence of pre-September 11, 2001 emails, failed to provide such emails in response to discovery requests and regulatory inquiries, failed adequately to preserve books and records, and failed to establish and maintain systems and written procedures reasonably designed to preserve required records and to ensure that it conducted adequate searches in response to regulatory inquiries and discovery requests. FINRA also found that MSDW failed to provide arbitration claimants with updates to a supervisory manual in discovery from late 1999 through the end of 2005. MS&Co. agreed, without admitting or denying these findings, to establish a \$9.5 million fund for the benefit of potentially affected arbitration claimants. In addition, MS&Co. was censured and agreed to pay a \$3 million regulatory fine and to retain an independent consultant to review its procedures for complying with discovery requirements in arbitration proceedings relating to its retail brokerage operations.
- On October 10, 2007, MS&Co. became the subject of an Order Instituting Administrative and Cease-And-Desist Proceedings ("October 2007 Order") by the SEC. The October 2007 Order found that, from 2000 until 2005, MS&Co. and MSDW failed to provide to their retail customers accurate and complete written trade confirmations for certain fixed income securities in violation of the Exchange Act and MSRB rules. In addition, MS&Co. was ordered to cease and desist from committing or causing any future violations, and was required to pay a \$7.5 million penalty and to retain an independent consultant to review MS&Co.'s applicable policies and procedures. MS&Co. consented to the issuance of the October 2007 Order without admitting or denying the SEC's findings.

- On December 18, 2007, MS&Co. became the subject of an Order Instituting Administrative Cease-and-Desist Proceedings (“December 2007 Order”) by the SEC. The December 2007 Order found that, from January 2002 until August 2003, MSDW (1) failed to reasonably supervise four Financial Advisors, with a view to preventing and detecting their mutual fund market-timing activities and (2) violated the Investment Company Act of 1940 by allowing multiple mutual fund trades that were placed or amended after the close of trading to be priced at that day’s closing net asset value. The December 2007 Order also found that, from 2000 through 2003, MSDW violated the Exchange Act by not making and keeping records of customer orders placed after the market close and orders placed for certain hedge fund customers in variable annuity sub-accounts. Without admitting or denying the SEC’s findings, MS&Co. agreed to a censure, to cease and desist from future violations of the applicable provisions, to pay a penalty of approximately \$11.9 million, to disgorge profits related to the trading activity (including prejudgment interest) of approximately \$5.1 million and to retain an independent distribution consultant.
- In May 2005, MS&Co. and MSDW discovered that, from about January 1997 until May 2005, their order entry systems did not check whether certain secondary market securities transactions complied with state registration requirements known as Blue Sky laws. This resulted in the improper sale of securities that were not registered in 46 state and territorial jurisdictions. MS&Co. and MSDW conducted an internal investigation, repaired system errors, self-reported the problem to all affected states and the New York Stock Exchange, identified transactions which were executed in violation of the Blue Sky laws, and offered rescission to affected customers. MS&Co. settled the state regulatory issues in a multi-state settlement with the 46 affected state and territorial jurisdictions. Under the settlement, MS&Co. consented to a cease and desist order with, and agreed to pay a total civil monetary penalty of \$8.5 million to be divided among, each of the 46 state and territorial jurisdictions. The first order was issued by Alabama on March 19, 2008, and orders are expected to be issued by subsequent states over the coming months.
- On August 13, 2008, MS&Co. agreed on the general terms of a settlement with the NYAG and the Office of the Illinois Secretary of State, Securities Department (“Illinois”) (on behalf of a task force of the North American Securities Administrators Association (“NASAA”)) with respect to the sale of auction rate securities (“ARS”). MS&Co. agreed, among other things, to repurchase at par approximately \$4.5 billion of illiquid ARS held by certain clients of MS&Co. which were purchased prior to February 13, 2008. Additionally, MS&Co. agreed to pay a total fine of \$35 million. Final agreements were entered into with the NYAG on June 2, 2009 and with Illinois on September 17, 2009. The Illinois agreement serves as the template for agreements with other NASAA jurisdictions.
- On November 13, 2008, in connection with the settlement of a civil action arising out of an investigation by the SEC into

CGM’s underwriting, marketing and sale of ARS, CGM, without admitting or denying the allegations of the SEC’s complaint, except as to those relating to personal and subject matter jurisdiction, which were admitted, consented to the entry in the civil action of a Judgment As To Defendant Citigroup Global Markets Inc. (“November 2008 Judgment”). Thereafter, on December 11, 2008, the SEC filed its civil action in the federal district court for the Southern District of New York (“Court”). The November 2008 Judgment, which was entered on December 23, 2008 (i) permanently enjoined CGM from directly or indirectly violating section 15(c) of the Exchange Act; (ii) provides that, on later motion of the SEC, the Court is to determine whether it is appropriate to order that CGM pay a civil penalty pursuant to section 21(d)(3) of the Exchange Act, and if so, the amount of the civil penalty; and (iii) ordered that CGM’s Consent be incorporated into the November 2008 Judgment and that CGM comply with all of the undertakings and agreements in the Consent, which include an offer to buy back at par certain ARS from certain customers. The SEC’s complaint alleged that (1) CGM misled tens of thousands of its customers regarding the fundamental nature of and risks associated with ARS that CGM underwrote, marketed and sold; (2) through its financial advisers, sales personnel and marketing materials, CGM misrepresented to customers that ARS were safe, highly liquid investments comparable to money market instruments; (3) as a result, numerous CGM customers invested in ARS funds they needed to have available on a short-term basis; (4) in mid-February 2008, CGM decided to stop supporting the auctions; and (5) as a result of the failed auctions, tens of thousands of CGM customers held approximately \$45 billion of illiquid ARS, instead of the liquid short-term investments CGM had represented ARS to be. CGM reached substantially similar settlements with the NYAG and the Texas State Securities Board (“TSSB”), although those settlements were administrative in nature and neither involved the filing of a civil action in state court. The settlements with the NYAG and the TSSB differed somewhat from the settlement with the SEC in that the state settlements (a) made findings that CGM failed to preserve certain recordings of telephone calls involving the ARS trading desk; and (b) required CGM to refund certain underwriting fees to certain municipal issuers. In addition, as part of the settlement with New York, CGM paid a civil penalty of \$50 million. CGM also agreed in principle to pay to states other than New York with which it enters into formal settlements a total of \$50 million. CGM paid \$3.59 million of this \$50 million to Texas as part of the settlement with that state. CGM expects it will reach settlements with the remaining states.

- On March 25, 2009, MS&Co. entered into a LAWC with FINRA. FINRA found that, from 1998 through 2003, MSDW failed to reasonably supervise the activities of two Financial Advisors in one of its branches. FINRA found that these Financial Advisors solicited brokerage and investment advisory business from retirees and potential retirees of certain large companies by promoting unrealistic investment returns and failing to disclose material information. FINRA also held that MS&Co. failed to ensure that the securities and accounts recommended for the retirees were properly

reviewed for appropriate risk disclosure, suitability and other concerns. MS&Co. consented, without admitting or denying the findings, to a censure, a fine of \$3 million, and restitution of approximately \$2.4 million plus interest to 90 former clients of the Financial Advisors.

MSSB's Form ADV Part 1 contains further information about its disciplinary history, and is available on request from your Financial Advisor.

### **Other Financial Industry Activities and Affiliations**

Morgan Stanley Parent is a financial holding company under the Bank Holding Company Act of 1956. Morgan Stanley Parent is a corporation whose shares are publicly held and traded on the New York Stock Exchange. Prior to June 28, 2013, MSSB was owned by a joint venture company which was indirectly owned 65% by Morgan Stanley Parent and 35% by Citi. On June 28, 2013, Morgan Stanley Parent purchased Citi's 35% interest in MSSB. Accordingly, MSSB is now a wholly owned indirect subsidiary of Morgan Stanley Parent.

**Activities of Morgan Stanley Parent.** Morgan Stanley Parent is a global firm engaging, through its various subsidiaries, in a wide range of financial services including:

- securities underwriting, distribution, trading, merger, acquisition, restructuring, real estate, project finance and other corporate finance advisory activities
- merchant banking and other principal investment activities
- brokerage and research services
- asset management
- trading of foreign exchange, commodities and structured financial products and
- global custody, securities clearance services and securities lending.

**Broker-Dealer and FCM Registrations.** As well as being a registered investment advisor, MSSB is registered as a broker-dealer and a futures commission merchant ("FCM").

**Restrictions on Executing Trades.** As MSSB is affiliated with MS&Co. and its affiliates, the following restrictions apply when executing client trades:

- MSSB and MS&Co. generally do not act as principal in executing trades for MSSB investment advisory clients (except to the extent permitted by a program and the law).
- Regulatory restrictions may limit your ability to purchase, hold or sell equity and debt issued by Morgan Stanley Parent and its affiliates in some investment advisory programs.
- Certain regulatory requirements may limit MSSB's ability to execute transactions through alternative execution services (e.g., electronic communication networks and crossing networks) owned by MSSB, MS&Co. or their affiliates.

These restrictions may adversely impact client account performance.

See Item 6.B above for conflicts arising from our affiliation with MS&Co. and its affiliates.

**Related Investment Advisors and Other Service Providers.** MSSB has related persons that are the investment advisers to mutual funds in various investment advisory programs (including Morgan Stanley Investment Management Inc., Morgan Stanley Investment Management Limited and Consulting Group Advisory Services LLC). If you invest your assets in an affiliated mutual fund, MSSB and its affiliates earn more money than if you invest in an unaffiliated mutual fund. Generally, for Retirement Plans, MSSB rebates or offsets fees so that MSSB complies with IRS and Department of Labor rules and regulations.

Morgan Stanley Investment Management Inc. and its wholly owned subsidiary Morgan Stanley Services Company Inc. serve in various advisory, management, and administrative capacities to open-end and closed-end investment companies and other portfolios (some of which are listed on the NYSE).

Morgan Stanley Distribution Inc. serves as distributor for these open-end investment companies, and has entered into selected dealer agreements with MSSB and affiliates. Morgan Stanley Distribution Inc. also may enter into selected dealer agreements with other dealers. Under these agreements, MSSB and affiliates, and other selected dealers, are compensated for sale of fund shares to clients on a brokerage basis, and for shareholder servicing (including pursuant to plans of distribution adopted by the investment companies pursuant to Rule 12b-1 under the Investment Company Act of 1940).

Morgan Stanley Services Company Inc., an affiliate of MSSB, serves as transfer agent and dividend disbursing agent for investment companies advised by Morgan Stanley Investment Management Inc. and other affiliated investment advisers and may receive annual per shareholder account fees from or with respect to them and certain unaffiliated investment companies.

Related persons of MSSB act as general partner, administrative agent or managing member in a number of funds in which clients may be solicited in a brokerage or advisory capacity to invest. These include funds focused on private equity investing, investments in leveraged buyouts, venture capital opportunities, research and development ventures, real estate, managed futures, hedge funds, funds of hedge funds and other businesses.

See Item 4.C above for a description of cash sweep investments managed or held by related persons of MSSB.

See Item 6.B above for a description of various conflicts of interest.

### **Code of Ethics**

The MSSB US Investment Advisory Code of Ethics ("Code") applies to MSSB's employees, supervisors, officers and directors engaged in offering or providing investment advisory products and/or services (collectively, the "Employees"). In essence, the Code prohibits Employees from engaging in securities transactions or activities that involve a material conflict of interest, possible diversion of a corporate opportunity, or the

appearance of impropriety. Employees must always place the interests of MSSB's clients above their own and must never use knowledge of client transactions acquired in the course of their work to their own advantage. Supervisors are required to use reasonable supervision to detect and prevent any violations of the Code by the individuals, branches and departments they supervise.

The Code generally operates to protect against conflicts of interest either by subjecting Employee activities to specified limitations (including pre-approval requirements) or by prohibiting certain activities. Key provisions of the Code include:

- An Employee who wishes to conduct business activity outside of his or her employment with MSSB, regardless of whether that Employee receives compensation for this activity, must first obtain written authorization from his or her supervisor. (Outside activities include serving as an officer or director of a business organization or non-profit entity, and accepting compensation from any person or organization other than MSSB.)
- Employees are generally prohibited from giving or receiving gifts or gratuities greater than \$100 per recipient per calendar year to or from persons or organizations with which MSSB has a current or potential business relationship, clients, or persons connected with another financial institution, a securities or commodities exchange, the media, or a government or quasi-governmental entity.
- Employees cannot enter into a lending arrangement with a client (unless they receive prior written approval from their supervisor and MSSB's Compliance Department).
- MSSB maintains a "Restricted List" of issuers for which it may have material non-public information or other conflicts of interest. Employees cannot, for themselves or their clients, trade in securities of issuers on the "Restricted List" (unless they receive prior written approval from the Compliance Department).
- Certain Employees, because of their potential access to non-public information, must obtain their supervisors' prior written approval or provide pre-trade notification before executing certain securities transactions for their personal securities accounts. All Employees must also follow special procedures for investing in private securities transactions.
- Certain Employees are subject to further restrictions on their securities transaction activities (including Financial Advisors and other MSSB employees who act as portfolio managers in MSSB investment advisory programs).

You may obtain a copy of the Code from your Financial Advisor.

See Item 6.B above.

## **Reviewing Accounts**

At account opening, your Financial Advisor and his or her Branch Manager (or the Branch Manager's designee) confirm that the account and the investment strategy are suitable investments for you.

Your Financial Advisor is then responsible for reviewing your account on an ongoing basis. We will ask you at least annually if your investment objectives have changed. If your objectives change, you should discuss with your Financial Advisor whether your selected manager is still suitable for your needs.

In the Fiduciary Services program, the Consulting Group's operations department conducts various checks on a periodic basis (e.g., identifying and reviewing accounts with a high cash balance, and inactive accounts). It also conducts some of these checks (e.g., inactive accounts) in the CES, IMS and MAP.

See Item 4.A above for a discussion of account statements, Investment Monitors.

## **Client Referrals and Other Compensation**

See "Payments from Managers" in Item 6.B above.

Our Professional Alliance Group program allows certain unaffiliated third parties to refer clients to MSSB. If the client invests in an investment advisory program, we pay the third party an ongoing referral fee (generally about 25% of the portion of the client fee that we would otherwise allocate to the Financial Advisor). We may pay a fee greater or less than 25% depending on the facts and circumstances of the relationship.

## **Financial Information**

We are not required to include a balance sheet in this Brochure because we do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

We do not have any financial conditions that are reasonably likely to impair our ability to meet our contractual commitments to clients.

MSSB and its predecessors have not been the subject of a bankruptcy petition during the past 10 years.



## **Exhibit: Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement**

### **Sweep Vehicles in Retirement Accounts and CESAs**

Since the dates below (“Effective Dates”), the following “Retirement Plan Accounts” (IRAs, Employee Benefit Trusts (“EBTs”), Retirement Plan Manager (“RPM” accounts) and Versatile Investment Program (“VIP” accounts) and Coverdell Education Savings Accounts (“CESAs”) have generally been effecting temporary sweep transactions of new uninvested cash balances into Deposit Accounts established under the Bank Deposit Program (although SB Channel Retirement Plan Accounts did not begin using BDP as the Sweep Investment until MSSB merged its SB Channel and MS Channel in 2012):

- September 17, 2007 for “IRAs” (e.g., Traditional, Roth, Rollover, SEP, SAR-SEP, SIMPLE), and
- May 19, 2008 for the remaining Retirement Plan Accounts (i.e., EBT, RPM and VIP accounts) and CESAs.

Before the Effective Dates, MSSB affected such sweep transactions using the Morgan Stanley money market funds listed in the table below as follows (although SB Channel Retirement Plan Accounts did not begin using these Morgan Stanley money market funds as the Sweep Investment until some time after the Effective Date):

- IRAs or CESAs in advisory programs swept into the Morgan Stanley Liquid Asset Fund Inc. (“ILAF”) and
- all other Retirement Plan Accounts in advisory programs swept into one or a number of different proprietary mutual funds (which could have included ILAF) depending on the type of account and the advisory program.

As of the Effective Dates, any existing balances in these Morgan Stanley money market funds remained in the funds, pending use for account charges and other purposes. Therefore, these accounts could still maintain cash balances in these funds.

***Now, as an alternative to the Deposit Account, Retirement Plan Accounts and CESAs can choose to sweep into ILAF.***

For Retirement Plan Accounts that swept into affiliated money market funds before the Effective Dates, or continued to hold cash amounts in these funds after the Effective Dates:

- any fee designated in the table below as “Advisory Fee” received by an MSSB affiliate is offset against the advisory program fees and
- any fees designated in the table as “Distribution and Service Fees” received by MSSB or its affiliates is credited to the account.

Accordingly, changes in these fees over time did not affect the fees paid by Retirement Plan Accounts.

### **Interest Earned on Float**

If MSSB is the custodian of your account, MSSB may retain as compensation, for providing services, the account’s proportionate share of any interest earned on cash balances held by MSSB (or an affiliate) with respect to assets awaiting investment including:

- new deposits to the account (including interest and dividends) and
- uninvested assets held by the account caused by an instruction to the custodian to buy and sell securities (which may, after the period described below, be automatically swept into a sweep vehicle).

This interest is generally at the prevailing Federal Funds interest rate.

Generally, with respect to such assets awaiting investment:

- when the custodian receives the assets on a day on which the NYSE is open (“Business Day”) and before the NYSE closes, the custodian earns interest through the end of the following Business Day and
- when the custodian receives the assets on a Business Day but after the NYSE closes, or on a day which is not a Business Day, the custodian earns interest through the end of the second following Business Day.

### **MSSB as an ERISA fiduciary**

If MSSB is a fiduciary (as that term is defined under ERISA or the Code) with respect to the Retirement Plan Account, the table below describes the fees and expenses charged to assets invested in shares of the money market funds in which the account invests (expressed as a percentage of each fund’s average daily net assets for the stated fiscal year). Note that:

- The rate of Advisory Fee and Distribution and Service Fees (including 12b-1 fees) (whether in basis points or dollars) may not be increased without first obtaining shareholder approval.
- Expenses designated as “Other Expenses” include all expenses not otherwise disclosed in the table that were deducted from each fund’s assets or charged to all shareholder accounts in the stated fiscal year (and may change from year to year).

These fees and expenses may be paid to MSSB and its affiliates for services performed. The aggregate amount of these fees is stated in the tables below. The amounts of expenses deducted from a fund's assets are shown in each fund's statement of operations in its annual report.

Morgan Stanley Investment Management (and/or its affiliates) may, from time to time, waive part of its advisory fee or assume or reimburse some of a fund's operating expenses. (This may be for a limited duration.) Such actions are noted in the fund's prospectus and/or statement of additional information. The table below shows the Total Annual Fund Operating Expenses (before management fee waivers and/or expense reimbursements) and the Total Annual Fund Operating Expenses After Fee Waivers and/or Expense Reimbursements.

MSSB believes that investing in shares of the funds for sweep purposes may be appropriate for Retirement Plans because using professionally managed money market funds allows you to access cash on an immediate basis, while providing a rate of return on your cash positions pending investment. As is typical of such arrangements, we use only affiliated money funds for this purpose.

MSSB also believes that investing a Retirement Plan's assets in the Deposit Accounts may also be appropriate. Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which has been provided to you with your account opening materials.

The fund expense information below reflects the most recent information available to us as of February 26, 2014, and is subject to change. Please refer to the funds' current prospectuses, statements of additional information and annual reports for more information.

<b>Fund</b>	<b>Advisory Fee</b>	<b>Distribution and Service Fees</b>	<b>Other Expenses</b>	<b>Total Annual Fund Operating Expenses</b>	<b>Total Annual Fund Operating Expenses After Fee Waivers and/or Expense Reimbursements</b>
Active Assets Money Trust	0.25%	0.10%	0.07%	0.42%	0.26%
Active Assets Government Securities Trust	0.45%	0.10%	0.12%	0.67%	0.14%
Active Assets Institutional Government Securities Trust	0.10%	None	0.07%	0.17%	0.14%
Active Assets Institutional Money Trust	0.10%	None	0.08%	0.18%	0.17%
Morgan Stanley Liquid Asset Fund Inc.	0.23%	0.10%	0.12%	0.45%	0.23%
Morgan Stanley U.S. Government Money Market Trust	0.35%	0.10%	0.10%	0.55%	0.16%