

Form ADV Wrap Fee Program Brochure Morgan Stanley Smith Barney LLC

Portfolio Management Program
Institutional Cash Advisory Program

June 30, 2014

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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 tel. (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. 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. Effective July 1, 2014, there is a minimum annual MSSB Fee (calculated quarterly) for each Portfolio Management and Institutional Cash Advisory Program account 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. (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.

Most Institutional Cash Advisory Program accounts do not have a cash sweep.

These provisions relating to Cash Sweeps do not affect you if you have set up a custodian other than MSSB for your account. (Item 4.C)

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Item 4: Services, Fees and Compensation

Morgan Stanley Smith Barney LLC (“MSSB”, “we” or “us”) 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 (the “SB Channel”) generally provided the investment advisory programs previously provided by Smith Barney and/or Citigroup Global Markets Inc. (“CGM”). The other channel (the “MS Channel”) generally provided the investment advisory programs previously provided by Morgan Stanley & Co. Incorporated (now, Morgan Stanley & Co. LLC) (“MS&Co.”).

In 2012, MSSB merged the SB Channel and MS Channel advisory programs.

MSSB offers clients (“you” and “your”) many different advisory programs. Many of MSSB’s advisory services are provided by its Consulting Group (“CG”) business unit. You may obtain ADV Brochures for other MSSB investment advisory programs at 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

The Portfolio Management Group, which is part of CG, administers and oversees the Portfolio Management program and the Institutional Cash Advisory program discussed below. This section then discusses various general matters applying to these programs.

Portfolio Management Program

In the Portfolio Management (“PM”) program, a Financial Advisor(s) who meets the program certification requirements manages your assets on a discretionary basis. In other words, your Financial Advisor, and not you, has the discretion to decide what securities to buy and sell in your account. This discretion is subject to the parameters described below and your ability to direct a sale of any security for tax or other reasons. The PM program provides Financial Advisors with portfolio management and trade execution tools to manage accounts efficiently. Certain Financial Advisors specialize in investing in multiple or

single asset classes or they may have defined investment strategies. You should discuss with your Financial Advisor which investment strategy suits your investment goals.

Investment Process. Your Financial Advisor manages your PM account in light of information you provide about your investment objectives and financial situation. Your Financial Advisor is primarily responsible for making and implementing investment management decisions for your account within the PM program’s investment guidelines. The guidelines specify the number and types of securities eligible for investment in a PM program account (including percentage limitations on account holdings in certain types of investments). The guidelines also specify diversification requirements (across industry sectors and asset classes). At the Portfolio Management Group’s discretion, certain Financial Advisors have greater latitude in selecting securities and diversification. Therefore, the availability of investment strategies and securities and the applicability of investment limitations varies depending on your Financial Advisor. You should consult with your Financial Advisor for more information on the PM program’s investment guidelines, the Financial Advisor’s approach to investing, and available investment strategies.

Depending on the investment strategy the Financial Advisor uses, investments may include equity and debt securities, and cash and cash equivalents. Where approved, Financial Advisors may use certain option strategies, such as covered call writing and protective put buying. Investments may also include shares of eligible closed-end funds, open-end funds (“Mutual Funds”) and exchange traded funds (“ETFs” and collectively the “Funds”).

Financial Advisors are prohibited from using certain investments or investment strategies in PM accounts, including, but not limited to, commodities, futures, short sales, partnerships, margin, derivatives, and other structured instruments, and certain securities on MSSB’s restricted list.

Your Financial Advisor may make investment decisions that are contrary to research ratings issued by Morgan Stanley Equity Research. In addition, depending on the account’s strategy and the Financial Advisor managing the account, there may be investment limitations based on the quality of investments held. On occasion, the PM program’s investment guidelines may require a Financial Advisor to sell certain securities from client accounts based on their quality ratings, or if Morgan Stanley Equity Research drops coverage of these securities with no intention of reinitiating coverage. Although these sales of securities may result in capital gains or losses and thus in additional taxes and/or tax reporting for you, these tax consequences will not prevent us from selling these securities in your account.

The PM program’s guidelines are subject to change without notice. You should consult your Financial Advisor for further details.

Institutional Cash Advisory Program

The Institutional Cash Advisory (“ICAP”) program offers discretionary cash management services to institutional clients

whereby MSSB invests and reinvests the proceeds of the account in accordance with the client's investment criteria, concentration limits and other requirements as stated in the client's Investment Policy Statement ("IPS"). Generally the whole portfolio is invested in short duration fixed income and cash equivalent investments. MSSB converts the specifics of the IPS to a quantifiable rules matrix for the account, and sends the matrix to the client. Provided the client agrees that the rules matrix is consistent with its IPS, MSSB manages the account within the rules matrix. If there is any ambiguity between the rules matrix and the IPS, the rules matrix controls. If assets held in the account fall outside of the rules matrix, MSSB will generally liquidate such assets in an orderly manner within a commercially reasonable amount of time. If the client revises the IPS, MSSB will then update the rules matrix and obtain the client's approval of the new matrix.

Account Opening

To enroll in the PM program, you must complete a client profile and an investment questionnaire. To enroll in any program described in this Brochure, you must enter into the program client agreement ("Client Agreement").

Restrictions

In each of these programs, you may request reasonable restrictions on the management of your account (may request that certain specified securities, or certain categories of securities, not be purchased for your account). This request may be made orally or in writing, but MSSB may require that any such request (or any changes to the request) be in writing. MSSB will accept reasonable restrictions on specific common equity and fixed income securities, as well as on certain categories of equity securities (e.g., tobacco companies) or Fund shares. MSSB will determine in its reasonable judgment how to implement such restrictions. If you restrict a category of securities, we will determine in our discretion 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). Any restrictions you impose on individual securities have no effect on Fund holdings since Funds operate in accordance with the investment objectives and strategies described in their prospectuses.

Although we will accept reasonable restrictions as described above, we will not have any obligation to manage your account in accordance with any investment guidelines, policy statements or other documents unless we specifically agree to do so, in writing.

Trade Confirmations, Account Statements and Performance Reviews

Unless you have appointed a third party custodian, 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.

Unless you have appointed another custodian, we will provide periodic reviews of your account. These reviews show how your account investments have performed, both on an absolute basis and 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 PM program and the ICAP programs, 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 custody your assets 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 an account is at your risk. The value of the assets held in an account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. Investment performance of any kind is not guaranteed, and MSSB's or a Financial Advisor's past performance with respect to other accounts does not predict future performance with respect to any particular account. In addition, certain investment strategies that Financial Advisors may use in the programs have specific risks, including those associated with investments in common stock, fixed income securities, American Depositary Receipts, and Funds. You should consult with your Financial Advisor regarding the specific risks associated with the investments in your account.

Risk 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. In that event, the fund's holdings are liquidated and distributed to the fund's shareholders. This liquidation process could take up to one 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 Options. Before engaging in the purchase or sale of options, investors should understand the nature of and extent of their rights and obligations and be aware of the risks involved, including, without limitation, the risks pertaining to the business and financial condition of the issuer of the underlying security or instrument. When selling cash secured puts, you have the potential to lose money if the equity underlying the put option declines in value, with your maximum loss occurring if the value of the equity declines to zero. Options investing, like other forms of investing, involves tax considerations, and transaction costs that can significantly affect the profit and loss of buying and writing options.

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.

Tax and Legal Considerations

Your Financial Advisor may agree with you to implement a client-developed investment strategy that you believe is sensitive to your particular tax situation. Neither we nor any of our affiliates provides tax or legal advice and, therefore, we and they are not responsible for developing, evaluating or the efficacy of any such tax-sensitive strategy. You need to develop any such strategy in consultation with a qualified tax adviser. Certain tax-sensitive strategies can involve risks. Among others, tax-efficient management services involve an increased risk of loss because your account may not receive the benefit (e.g., realized profit, avoided loss) of securities transactions that would otherwise take place in accordance with your Financial Advisor’s investment management decisions for the account.

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 MLPs will receive a Schedule K-1 for each MLP in which they invest, 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 MLPs may be required to file state income tax returns in states where the MLPs operate. Since some Schedule K-1s may not be provided until after the due date for the federal or state tax return, investors in MLPs 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.

Fees

Maximum Fees. The maximum annual fee for the PM program is 3.00% of the market value of the eligible securities in the account. The maximum fee for various levels of eligible assets in the ICAP program is as follows:

ICAP Program Assets	Annual Fee
On the first \$10,000,000	0.25%
On the next \$40,000,000	0.20%
On the next \$50,000,000	0.15%
Assets over \$100,000,000	0.12%

Minimum Fees. Effective July 1, 2014 there is a minimum annual MSSB Fee (calculated quarterly) for each PM and ICAP account 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.

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 provided by the Financial Advisor. 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.

When Fees are Payable. The fee is payable as described in the Client Agreement. Generally, the initial fee is due in full on the date you open your account at MSSB 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 the last business day of the next full billing quarter and is prorated accordingly. Thereafter, the fee is paid quarterly in advance (however in the ICAP program clients may elect to pay in arrears) based on the account’s market value on the last business day of the previous billing quarter and is due on the tenth business day of the following billing quarter. The Client

Agreement authorizes MSSB (if MSSB is the custodian) to deduct fees when due from the assets contained in the account.

Breakpoints. Fee rates in the PM and ICAP programs may be expressed as a fixed rate applying to all assets in the account, or as 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, discounts, if any, 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.

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 MSSB’s policies and procedures. Even where accounts are eligible to be related under these policies and procedures, they will only be related if this is specifically agreed between you and the Financial Advisor.

Money Market Funds in ICAP Accounts. For certain ICAP accounts, MSSB may waive the annual fee on money market fund investments and, in lieu thereof, receive payments from the mutual fund companies of up to 10 bps. Unlike the payments described below under the heading “Funds in Advisory Programs” MSSB may share these payments with Financial Advisors. To the extent the annual fee is less than the payment from the mutual fund companies, MSSB has a conflict of interest in recommending these investment over others. Conversely, if the annual fee is greater than the payments from the mutual fund companies, MSSB has a financial disincentive to recommend these investments.

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. Because the programs described in this Brochure do not involve third party investment managers, we receive the entire fee and we pay our Financial Advisor a portion of the entire fee. See *Item 4.D below (Compensation to Financial Advisors) for more information.*

B. Comparing Costs

The primary service that you are purchasing in the programs described in this Brochure is your Financial Advisor’s, or a Financial Advisor that partners with your Financial Advisor, discretionary management of your portfolio pursuant to certain program guidelines. Cost comparisons are difficult because that particular service is not offered in other CG programs. Depending on the level of trading and types of securities purchased or sold in your account, if purchased separately, you may be able to obtain transaction execution at a higher or lower cost at MSSB or elsewhere than the fee in these programs. However, such transactions could not be executed on a discretionary basis in a brokerage account. Clients who participate in the programs described in this Brochure pay a fee based on the market value of the account for a variety of services, and accordingly may pay more or less for such services than if they purchased such services separately (to the extent that such services would be available separately to the client). Furthermore, the same or similar services to those available in these programs may be available at a lower fee in programs offered by other investment advisors. In addition, CG offers other programs where discretionary portfolio management is provided by third party investment managers and the fees in those programs may be higher or lower than the fees in these programs. Those programs involve the discretionary portfolio management decisions of third party investment managers and not your Financial Advisor.

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 which covers investment advisory services, custody of securities (if we are the custodian) and trade execution with through MSSB, as well as compensation to any Financial Advisor.

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 (A) that MSSB or its affiliates may receive when acting as principal in certain transactions where permitted by law or (B) that other broker-dealers may receive when acting as principal in certain transactions effected through MSSB and/or its 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 MSSB or its affiliates
- MSSB account establishment or maintenance fees for its Individual Retirement Accounts (“IRA”) 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 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 Funds in programs 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.

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.

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 appropriate, 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, individual retirement accounts (“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/pdfs/MF_share_classes.pdf and also available from your Financial Advisor on request. Certain Funds are sponsored or managed by affiliates of MSSB. Since the affiliated sponsor or manager receives additional investment management fees and other fees, MSSB has a conflict to recommend MSSB affiliated Funds.

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 that 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) may 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.

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, we may convert any Investment Advisory Shares 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 any Investment Advisory shares. The non-advisory Mutual Fund share class

generally has higher operating expenses than the corresponding Investment Advisory Share classes, which may negatively impact investment performance.

Any Fund in your account 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 on your account.

Cash Sweeps

Generally, some portion of your account will be held in cash. MSSB, as your custodian, will effect “sweep” transactions of uninvested cash, allocations to cash and cash equivalents, 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”). These 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; or (iv) transfer your sweep investment from one sweep product to another.

Most ICAP accounts do not have a cash sweep.

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, without limitation, 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. You acknowledge and understand that 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 and its affiliates are 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.

Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which is provided to you with your account opening materials. If you are participating in the Bank Deposit Program, please read the Bank Deposit Program Disclosure Statement carefully.

Money Market Funds.

We may, in our sole discretion, offer Money Market Funds as Sweep Investments. The only Money Market Funds are currently available in the Program are affiliated with MSSB. You understand that purchases and redemptions of Money Market Fund shares offered as Sweep Investments 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, a portion of the fees payable to us in connection with your account is allocated on an ongoing basis to your Financial Advisor. The amount allocated to your Financial Advisor in connection with accounts opened in programs described in this

Brochure may be more than if you participated in other MSSB investment advisory programs, or if you paid separately for investment advice, brokerage and other services. The rate of compensation that MSSB pays Financial Advisors with respect to program account fees may be higher than the rate that MSSB pays 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 instead of other MSSB programs or services.

If you invest in one of the programs described in this Brochure, your Financial Advisor may agree to 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 in the PM program and other advisory programs, 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. The PM program generally has a minimum account size of \$10,000. The ICAP program generally has a minimum account size of \$10,000,000.

Types of Clients. MSSB's 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

Eligible Financial Advisors

In the programs described in this Brochure, your Financial Advisor generally acts as the portfolio manager.

There are three levels of FA Portfolio Management Certification; Level 1, Level 2 and Level 3. MSSB selects FAs for participation in each level based on criteria such as approval by Branch Manager; passing an appropriate examination; length and type of FINRA and (if applicable) state registration; and client assets under management. Other criteria may also be applicable for selection for some or all levels. Level 2 FAs are subject to more stringent selection criteria than Level 1 FAs, and are given greater flexibility to manage client accounts within the PM guidelines than Level 1 FAs. Level 3 FAs are subject to more stringent selection criteria than Level 2 FAs, but are afforded higher service levels and may be given greater

flexibility to manage client accounts within the PM guidelines than Level 2 FAs..

ICAP accounts are managed by Financial Advisors who are experienced in managing corporate cash and have successfully completed an educational program that includes coursework in investment analysis and portfolio management.

Under certain circumstances, based primarily on the Financial Advisor's prior investment experience, the Portfolio Management Group Director may waive the some or all of the Financial Advisor selection criteria for any program described in this Brochure.

Calculating Financial Advisors' Performance

In the programs described in this Brochure, we calculate performance using a proprietary system. MSSB allows certain Financial Advisors to create a composite performance track record for accounts they manage in a similar style.

Each month, MSSB's Performance Reporting Group reviews and tests certain client accounts with performance deviating from the average return of the applicable composite of accounts. It then reviews how performance was calculated for these accounts.

Some Financial Advisors hire a third party (such as Ashland Partners & Co. LLP) to review composite to determine if the preparation, presentation and calculation of investment performance results for a composite are fairly presented in all material respects.

B. Conflicts of Interest

Conflicts of Interest – Financial Advisor Acting as Portfolio Manager; Advisory vs. Brokerage Accounts.

In the programs described in this Brochure, your Financial Advisor generally acts as the portfolio manager. MSSB and, in turn, the Financial Advisor, retain a greater portion of the advisory fee in these programs than in those in which an unaffiliated investment manager acts as your portfolio manager. MSSB and the 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 program described in this Brochure). Financial Advisors and MSSB therefore have a financial incentive to recommend the programs described in this Brochure.

This creates a conflict of interest for Financial Advisors and MSSB, as there is a financial incentive to recommend one of the programs described in this Brochure.

We address these conflicts of interest by disclosing them 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.

Other Conflicts of Interest

As well as the conflicts of interest arising from your Financial Advisor acting as portfolio manager, MSSB has various other conflicts of interests relating to the programs described in this Brochure.

Payments from Mutual Funds. The only Mutual Funds offered in the programs described in this Brochure (other than Money Market Funds) are those that have agreed to pay us the types of payments described above in Item 4.C.

Payments from Fund Managers. Please see Item 4.C above (Additional Fees – Funds in Advisory Programs), including the discussion of Global and Emerging Partners, for more information.

Managers of Funds (“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 all of the 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 Fund Managers” section do not relate to any particular transactions or investment made by MSSB clients with managers. Managers 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.

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 investment 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. MS&Co., MSSB, 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, MSSB (or an affiliate’s) trading – both for its proprietary account 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 Financial Advisor may aggregate the securities to be sold or purchased for more than one client to obtain favorable execution to the extent permitted by law. The Financial Advisor will then allocate the trade in a manner that is equitable and consistent with MSSB’s fiduciary duty to its clients (including pro rata allocation, random allocation or rotation allocation). Allocation methods vary depending on various factors (including the type of investment, the number of shares purchased or sold, the size of the accounts, and the amount of available cash or the size of an existing position in an account). The price to each client is the average price for the aggregate order.

Services Provided to Other Clients. MSSB, MS&Co., investment 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 MSSB may recommend for purchase or sale by clients or are otherwise held in client accounts, and investment management firms in the programs described in this Brochure. MSSB, MS&Co., investment managers 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, MS&Co., investment managers and their affiliates or an affiliate performs investment banking or other services.

Restrictions on Securities Transactions. There may be periods during which MSSB or investment 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 have 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 its 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, investment managers and their affiliates are not obligated to effect any transaction that MSSB or a manager or any of their affiliates believe would violate federal or state law, or the regulations of any regulatory or self-regulatory body.

Options Flow Preferencing. When MSSB processes an options transaction for your account, our affiliate MS&Co. may be given preference as to the execution of such transaction. MS&Co. will only be given such preference if the prices at which it can execute the transaction are equal to or lower than the best price

quoted on the relevant exchange. Because of this preference, MS&Co. can generate larger trading volumes and compensation. Both MSSB and MS&Co. continue to have an obligation to obtain best price and execution terms for client transactions under prevailing circumstances and consistent with applicable law.

Research Reports. MS&Co. does business with companies covered by its research groups. Furthermore, MS&Co. and its affiliates and client accounts may hold a trading position (long or short) 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 Trading, Inc., operator of 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 Mutual Funds. Certain of the Mutual Funds in the PM program are affiliated with MSSB. However, Mutual Funds affiliated with MSSB (except the Money Market Fund) will not be available to Retirement Plans. Although some Mutual Funds may be available in more than one MSSB program, each program may offer investment products and other features that are not available in other MSSB programs. You understand that MSSB and our affiliates will receive more aggregate compensation when the PM Financial Advisor selects a Mutual Fund that is affiliated with MSSB than if the PM Financial Advisor selects a Mutual Fund that is not affiliated with MSSB. The selection of a MSSB affiliated Mutual Fund may also be more costly to your account than other options. In addition, some Mutual Funds that are affiliated with MSSB may charge higher fees than other affiliated Mutual Funds. Thus, MSSB and our Financial Advisor have a conflict of interest when selecting Mutual Funds. Similarly, if a Mutual Fund is not affiliated with us but we have an ownership share in the Mutual Fund’s manager, we and our Financial Advisors have a conflict of interest in selecting that Mutual Fund because, as an owner of the Mutual Fund’s manager, we benefit from its profits.

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 and its affiliates 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 and its affiliates 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.

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

C. Financial Advisors Acting as Portfolio Managers

Description of Advisory Services

See Item 4.A above for a description of the services offered in the programs described in this Brochure.

Tailoring Services for Individual Clients

You may ask your portfolio manager to manage your account pursuant to a particular investment strategy. In the ICAP program your Financial Advisor will manage your account in accordance with your IPS (as discussed above in Item 4.A). You may also place restrictions on your account (as discussed above in Item 4.A).

Wrap Fee Programs

MSSB acts as both the wrap fee program sponsor and the portfolio manager in the programs described in this Brochure. MSSB does not act as portfolio manager in any programs which are not wrap fee programs but are otherwise similar to the programs described in this Brochure. MSSB receives all the client fees for its services provided in the programs described in this Brochure.

Performance-Based Fees

The programs described in this Brochure do not charge performance-based fees.

Methods of Analysis and Investment Strategies

Financial Advisors in the programs described in this Brochure may use any investment strategy when providing investment advice to you. Financial Advisors may use asset allocation recommendations of the Morgan Stanley Smith Barney Global Investment Committee as a resource but, if so, there is no guarantee that any strategy will in fact mirror or track these recommendations. Investing in securities involves risk of loss that you should be prepared to bear.

MSSB's cash policy applies to the PM program. The policy is intended to provide tactical flexibility in allocating assets to Money Market Funds or the BDP program. While there may be individual circumstances or tactical reasons to overweight these assets in your account, holding these assets as part of a strategic allocation for an extended period of time could adversely impact account performance. When an account exceeds MSSB's percentage and duration guidelines for these assets, we will cease charging you an advisory fee on the portion of those assets that exceeds our internal guidelines for so long as such portion exceeds the guidelines.

Policies and Procedures Relating to Voting Client Securities Electing Who Votes Proxies. If you have an account in the PM programs, you may elect to:

- retain the authority and responsibility to vote proxies for your account
- delegate discretion to vote proxies to a third party (other than MSSB) or

- if your account assets are custodied with MSSB, authorize us to vote proxies for such securities and receive related materials.

Unless you authorize us to vote proxies, we will forward to you any proxy materials that we receive for securities in your account. Unless we vote proxies for you, we cannot advise you on particular proxy solicitations. If we vote proxies for you, you cannot instruct us on how to cast any particular vote.

We will not provide advice or take action with respect to legal proceedings (including bankruptcies) relating to the securities in your account, except to the extent required by law.

MSSB's Proxy Voting Policies and Procedures. This section only applies if you authorize us to vote proxies on your behalf. If you do so, you cannot instruct us on how to cast any particular vote.

To assist us in our proxy voting responsibilities, we have engaged ISS, a third party provider of corporate governance services. ISS provides in-depth research, analysis and voting recommendations, as well as vote execution, auditing and consulting assistance to handle proxy voting responsibility. Except as described below, MSSB votes in a manner consistent with ISS' policy guidelines and vote recommendations. Because ISS makes its recommendations based on its independent, objective analysis of the economic interests of shareholders, its process ensures that we vote in clients' best interests and insulates our voting decisions from conflicts of interests.

If ISS cannot make a proxy vote recommendation, ISS abstains on behalf of MSSB. In cases where an abstention is not possible ISS refers the vote to the Proxy Voting Committee.

We have established a Proxy Voting Committee with members designated by MSSB management. The Proxy Voting Committee has the authority to amend MSSB's proxy voting policies and procedures. The Proxy Voting Committee meets periodically to review generally its proxy voting policies and procedures, and to address any outstanding or special proxy voting issues.

While MSSB's policy is to vote proxies solely in clients' best interests, proxy votes cast by the Proxy Voting Committee may also benefit other clients of MSSB or its affiliates (including investment banking or other clients with whom MSSB or its affiliates has significant client relationships).

The Proxy Voting Committee may abstain from voting if, based on factors such as expense or difficulty of exercise, it determines that this best serves clients' interests.

ISS enters proxies we cast on clients' behalf electronically into ISS' system.

You may obtain from your Financial Advisor, on request:

- a complete copy of MSSB's proxy voting policies and procedures (including a copy of ISS' policy guidelines and vote recommendations in effect from time to time) or

- information on how proxy votes have been cast on your behalf during the prior annual period.

We retain books and records relating to our proxy voting activities on behalf of client accounts as required by law.

Item 7: Client Information Provided to Portfolio Managers

The Financial Advisor is the portfolio manager in the programs described in this Brochure. The Financial Advisor has access to the information you provide at account opening. In the PM program, this includes information in the client profile and investment questionnaire you complete as part of the account opening process.

Item 8: Client Contact with Portfolio Managers

In the programs described in this Brochure, you may contact your Financial Advisor at any time during normal business hours.

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 LAWEC 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 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.

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 ERISA or other retirement accounts, 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., and Morgan Stanley Investment Management 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 nonaffiliated 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 that 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. PM Financial Advisors may not trade in their own accounts (or certain accounts in which they or related persons have an interest) in the same security as their advisory client(s) on the same day and prior to an advisory client's trades is executed. PM Financial Advisors may trade derivatives in their own accounts (and related person accounts) on the same day as long as their trade is executed after the last client trade, and only if their trading does not present a conflict with the client's trade.
- However, in the programs described in this Brochure, Financial Advisors may trade their own (and related person) accounts at the same time as they execute client trades if they aggregate these trades with client trades. They may thereby acquire, and compete for, positions or interests in the same securities as their clients which may affect the security's price, which constitutes a conflict of interest. While Financial Advisors are required to execute transactions in a manner that is fair and equitable to their clients over time, client accounts may at times be indirectly negatively impacted when Financial Advisors also trade for their own accounts. We address this conflict by disclosing it to you. Please ask your Financial Advisor if you would like more information on the Financial Advisor's practices in this respect.

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

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 style are suitable investments for you.

Your Financial Advisor is then responsible for reviewing your account on an ongoing basis. Your Financial Advisor may adjust your portfolio at any time according to market conditions. Your Financial Advisor will ask you at least annually if your investment objectives have changed. If your objectives change, your Financial Advisor will modify your portfolio to be suitable for your needs.

The Portfolio Management Group reviews accounts daily to determine if any investments are outside the program guidelines and, if so, requires your Financial Advisor and Branch Manager to bring your account within the guidelines.

See Item 4.A above for a discussion of account statements and periodic reviews provided for your account.

Client Referrals and Other Compensation

See "Payments from Mutual Funds" in Item 6.B above.

MSSB's Professional Alliance Group program allows certain unaffiliated third parties to refer clients to MSSB. If the client invests in an investment advisory program, MSSB pays the third

party an ongoing referral fee (generally about 25% of the portion of the client fee that MSSB would otherwise allocate to the Financial Advisor). MSSB may pay a fee greater or less than 25% depending on the facts and circumstances of the relationship.

Financial Information

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

MSSB does not have any financial conditions that are reasonably likely to impair its ability to meet its 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 Management (“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.

Fund	Advisory Fee	Distribution and Service Fees	Other Expenses	Total Annual Fund Operating Expenses	Total Annual Fund Operating Expenses After Fee Waivers and/or Expense Reimbursements
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%