

# Consulting Group: An Introduction

## SUMMARY

The last several years have proven just how challenging and unpredictable the financial markets can be. The need for investment advice has risen in response to this increasingly complex environment, and the guidance of a skilled professional—whether to manage your own money or the institutional funds entrusted to your care—can be a critical component of your portfolio’s long-term success. As the managed money unit of Morgan Stanley Wealth Management, Consulting Group has a long history of providing investment consulting advice and services to a broad range of individual and institutional clients.

Consulting Group’s mission is to provide the highest level of sophisticated financial advice; objective investment manager, economic and capital markets research; and asset allocation advice to our clients. We work with Financial Advisors and their clients to help develop and implement investment strategies personalized to suit their specific needs.

## CONSULTING GROUP AT A GLANCE

\$650.6 billion	Assets under management*
1,100	Investment products evaluated regularly
280+	Consulting Group professional staff**
30+	Manager research professionals
4	Industry-leading investment advisory programs by assets*
#1	Managed accounts platform by assets*

\* Cerulli Associates, 3Q 2013 Summary. Cerulli Associates’ data are based on data submitted by firms participating in Cerulli’s survey. Please see the disclosures at the end of this report for additional information.

\*\* As of October 25, 2013.

# A Disciplined Investment Process

**A**t the heart of Consulting Group's services is a disciplined, four-step process—one that begins and ends with our clients. By following this process, we seek to help you identify your investment goals and achieve them over the long term.

**1. SET YOUR FINANCIAL OBJECTIVES.** The process begins with an in-depth and far-reaching consultation with your Financial Advisor to help you clarify your financial goals. Are you investing for retirement, your children's or grandchildren's education, or a major purchase, such as a vacation home? Your Financial Advisor will work

closely with you to see to it that the investments in your portfolio are appropriate for your risk tolerance, liquidity needs, time frame and return requirements—and, of course, that they reflect your long-term objectives.

**2. DEFINE AN INVESTMENT STRATEGY.** Next, you and your Financial Advisor will create an asset allocation plan based on your unique profile and situation. This involves selecting particular types of asset classes—such as large- and small-cap equities, fixed income, and international investments, among others—and determining the

percentage of your portfolio that each asset class should constitute.

**3. EVALUATE AND SELECT INVESTMENTS.** The third step is choosing an appropriate investment program and the investment managers and/or products whose strategy and investment style match your financial objectives. With tens of thousands of investment managers and products available in the marketplace today, this can prove a daunting task. Consulting Group and the Consulting Group Investment Advisor Research team help reduce the uncertainty involved in the selection process by carefully and objectively evaluating the investment managers and products available through our programs.

**4. ONGOING REVIEW PROCESS.** Once your strategy is in place, your Financial Advisor will continue to monitor your portfolio's performance and revisit your long-term objectives, enabling you to make adjustments as needed. Meanwhile, we will make available periodic performance and activity reports on the investment products in your portfolio, which you can review with your Financial Advisor. Should your financial objectives change, your Financial Advisor can reassess your overall investment program and suggest suitable adjustments.



Whatever their personal, professional or financial similarities, no two individuals will have identical financial profiles or investment goals. For that reason, Consulting Group offers a range of investment strategies designed to meet the needs of most investors:

- **SEPARATELY MANAGED**

**ACCOUNTS.** Assembling the ideal mix of investments can be a difficult and time-consuming challenge. Small wonder that many investors rely on professional investment managers to tailor a separately managed account to their personal profile. A separately managed account (SMA) typically consists of a customized portfolio of stocks, bonds or other assets managed on the investor's behalf by a professional portfolio manager. Because the investor directly owns all the underlying securities in a separately managed account, this type of investment potentially offers the opportunity to manage the timing of future tax liabilities, as well as other services tailored specifically to the investor's needs.

Consulting Group's separately managed account programs give you access to portfolios that are professionally managed by some of the nation's most recognized independent investment management firms. With a single-contract SMA, we provide regular manager research, evaluation and portfolio attribution services under a single contract between you and Morgan Stanley Wealth Management that also covers the fees for the investment manager. Dual-contract SMAs are characterized by separate contracts between you, Morgan Stanley Wealth Management and the individual investment manager.

- **MUTUAL FUND ADVISORY.** With all the mutual funds available today, it can be difficult to decide which ones best suit your needs. Through Consulting Group's mutual fund advisory programs, you gain access

to literally hundreds of mutual funds, professionally managed by both unaffiliated and Morgan Stanley-affiliated investment managers. In addition to a full implementation of Consulting Group's four-step process, added features to mutual fund advisory accounts may include account rebalancing and automated investment/withdrawal services for assets held in the account.

- **UNIFIED MANAGED ACCOUNTS.**

The ever-increasing complexity of investment management can make coordinating decisions a full-time job. One possible solution may be a unified managed account (UMA)—a diversified portfolio that may include a combination of separately managed accounts, mutual funds and/or exchange-traded funds (ETFs) designed to meet a variety of investment objectives and risk profiles.

Unified managed accounts can provide you with a comprehensive, unified approach to asset allocation, product selection, account administration and performance reporting by consolidating different investment products within a single account structure. An overlay portfolio manager coordinates all activity in the account, including portfolio construction and implementation, account rebalancing, and optional tax-management services.

## Private Client Advisory Programs

- **FINANCIAL ADVISOR PORTFOLIO MANAGEMENT (FINANCIAL ADVISOR DISCRETIONARY PROGRAMS).**

Because the markets are complex and can change quickly, many investors prefer to give a trusted professional full discretion to invest their assets and manage their portfolios. Financial Advisors who participate in Consulting Group's portfolio management programs are a select group who are qualified by the Firm to independently manage client assets based on training, experience and commitment to client service.

- **NONDISCRETIONARY PROGRAMS.**

If you prefer to map and implement your own investment strategy and make your own investment decisions, you may wish to consider one of Consulting Group's nondiscretionary investment programs. While you retain final investment-decision authority, you will benefit from the ongoing professional advice of your Financial Advisor, who will periodically review your portfolio to help you keep your investments in line with your strategy.

Over time, as changing market conditions or personal developments affect your financial position or objectives, your Financial Advisor will work with you to reassess your strategy and implement any necessary portfolio adjustments.

# Institutional Advisory Programs

Consulting Group offers several investment consulting programs designed to meet the complex needs of sophisticated investors such as foundations and endowments, corporate retirement plans, Taft-Hartley funds, health care organizations, and state and local governments, as well as family offices and ultra high net worth individuals.

- **GRAYSTONE CONSULTING.**

Graystone Consulting provides a comprehensive range of investment solutions delivered by Graystone Institutional Consulting Directors, an echelon of experienced investment professionals backed by a dedicated team of investment professionals, technical analysts and administrative personnel. These individuals focus on institutional investors with significant assets that require a level of sophisticated services that can be provided by an institutionally oriented team.

- **CUSTOM INVESTMENT**

**OUTSOURCING.** Custom Investment Outsourcing specializes in an integrated approach to investment management accomplished through a single relationship with Morgan Stanley and your Financial Advisor. In essence, this program helps serve as your chief investment officer, managing some or all investment functions that might previously have

been handled by your own staff. These functions include managing relationships with asset management firms, custodians, administrative and recordkeeping firms, and other financial entities.

## AN EASIER WAY TO MANAGE PHILANTHROPIC GOALS

Philanthropy provides an opportunity to make the world a better place for our children and for future generations. It can also yield important financial benefits for you, your family and your heirs. In working with your Financial Advisor to choose an appropriate giving strategy, you may wish to consider the Morgan Stanley Global Impact Funding Trust (GIFT).

The GIFT program offers a way to help individuals and families build a charitable legacy without the administrative burden, expense and fiduciary responsibility of a private foundation. It includes a

- **GLOBAL INVESTMENT SOLUTIONS.**

Global Investment Solutions specializes in creating professionally managed portfolios for the Firm's Financial Advisors and their clients. As Consulting Group's investment management business, it draws on the collective wisdom and independent thinking of several of our experienced investment teams to deliver discretionary portfolio management. Comprised of seasoned portfolio managers and other investment professionals, each team focuses on particular asset classes and investment approaches. Global Investment Solutions' investment philosophy is supported by an in-depth knowledge of the global capital markets, robust analysis and independent thought leadership.



donor-advised fund—a charitable-giving vehicle that offers potential tax benefits while contributing to the charities of your choice.

You may make donations in virtually any form you choose, including cash, securities, real estate, life insurance, IRA assets, closely held stock and restricted shares. Because the Global Impact Funding Trust, Inc. owns the assets contributed, you may be eligible to receive a federal income tax deduction for your contributions. The program also includes a suite of grant and donor services.

# Global Resources, Local Perspective

To help you and your Financial Advisor to meet your investment needs, Consulting Group's programs draw on the global resources of Morgan Stanley to assist with asset allocation advice, investment manager research, product selection and portfolio construction and implementation.

**ASSET ALLOCATION ADVICE.** The importance of asset allocation in a carefully conceived investment plan has long been recognized by investment professionals. Indeed, studies suggest that asset allocation, rather than individual security selection, is the primary driver of a portfolio's long-term performance.

Asset allocation cannot assure a profit or protect against loss. However, when executed properly, it can provide a potential means of managing risk and targeting enhanced long-term returns. In helping you determine your asset allocation, your Financial Advisor may begin with the insights of the Morgan Stanley Wealth Management Global Investment Committee (GIC), a dedicated team of qualified investment professionals from both inside and out-

side the Firm. The GIC applies the findings of the firm's research teams across a range of investable assets, providing the input for asset allocation models calibrated to various risk levels, from conservative to aggressive, and continually modified as the markets move. These asset allocation models may then become part of the basis of your investment strategy.

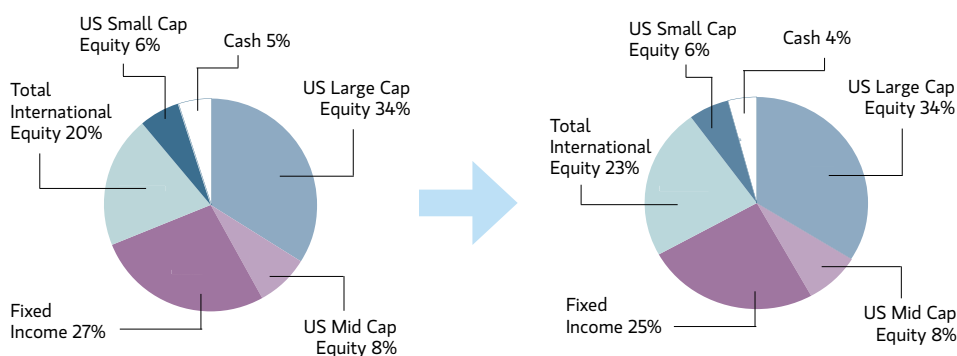
**INVESTMENT MANAGER RESEARCH.** Choosing a professional asset manager is one of the most

## Strategic and Tactical Asset Allocation

*The Global Investment Committee employs a two-pronged approach to the creation of its market views. Both strategic and tactical asset allocation models are incorporated explicitly into many of Consulting Group's advisory programs, including our mutual fund advisory and unified managed account programs.*

Sample models for illustrative purposes only. The appropriateness of a particular investment or asset allocation strategy will depend on an investor's individual circumstances and objectives.

Source: Consulting Group, November 2013. Subject to change. Contact your Financial Advisor for the current models.



**Strategic allocations.** First, the Global Investment Committee formulates strategic allocations for each asset class. These allocations are derived from the committee's long-term outlook and represent the mix of asset classes aimed at producing the highest return for a given level of risk.

**Tactical recommendations.** The Global Investment Committee then recommends tactical moves to exploit short-term opportunities. These are based on current and prospective economic conditions and the committee's view as to which asset classes are likely to outperform or underperform their long-term averages—or one another—over the next six to 12 months.

important decisions any investor can make. Whether these advisory services are provided through a separately managed account, a mutual fund or another investment vehicle, a poor choice can have serious financial consequences. In evaluating investment management firms, we draw on the resources and intellectual capital of the Consulting Group Investment Advisor Research team—a corps of more than 30 experienced manager research professionals who review more than 1,100 investment products each quarter, including separately

managed account strategies, mutual funds in both traditional and alternative strategies, and exchange-traded funds.

In evaluating an investment manager, the team looks beyond past performance at a range of factors that may include:

- Investment philosophy
- Research capabilities
- Portfolio-construction process
- Composition of the investment management team
- Business operations and technological capabilities

## Manager Research Guidelines

*To help you receive unbiased and objective investment advice, as well as to ensure the integrity of our process, the Consulting Group Investment Advisor Research team adheres to the following guidelines:*

- We **focus our recommendations** on investment management firms that are **unaffiliated with Morgan Stanley**.
- Our investment **manager research process is highly disciplined and consistently applied**, allowing us to objectively compare strengths and weaknesses across firms of similar styles and philosophies.
- We have **access to one of the industry's largest databases** of manager analytics and investment statistics, which includes **information on more than 7,700 investment strategies**.
- The **compensation of our research analysts is not tied to the client assets** placed in the investment firms they examine.
- Our research is **published solely for the use of our clients** and is not available or sold to any other source.
- Investment **firms may be removed from our programs, regardless of asset levels**, if they have strayed from their original mandate or experienced significant changes to their management or operations.

## INVESTMENT SELECTION.

Selecting complementary investment products for a portfolio is a stage of the investment process in which the expertise and resources available through Consulting Group may provide significant value to investors. The Portfolio Advisory Services team within Consulting Group combines an objective portfolio construction discipline with a sophisticated risk management framework to evaluate and ultimately recommend the investment products for our firm-discretionary advisory programs, including Custom Investment Outsourcing and some unified managed accounts.

## OVERLAY PORTFOLIO

**MANAGEMENT.** There are many challenges involved in integrating and overseeing an investment portfolio with multiple managers and products. In many cases, these activities can be complex and time-consuming, and may be extremely difficult for an individual to perform alone. Consulting Group addresses these issues in UMAs by leveraging the overlay portfolio management services available from our Private Portfolio Group.

Overlay portfolio management helps provide a comprehensive, unified approach to asset allocation, investment selection, account management and performance reporting by coordinating portfolio construction and implementation, account rebalancing, and additional services.

Private Portfolio Group combines multiple managers, asset classes and investment vehicles in a single account; continually evaluates the portfolio; and rebalances as necessary to maintain a disciplined approach to a long-term investment strategy. Today, Private Portfolio Group works with several hundred asset managers, and its overlay portfolio management services provide the backbone of our unified managed account program.

# The Advantage of Personalized Advice

Investing for long-term success has never been a simple matter. In today's dynamic and complex market environment, there are simply too many trends and variables to track, too much information to gather and process, and too many options to weigh.

Consulting Group's goal is to help deliver the highest level of sophisticated investment advice; objective investment manager, economic and capital markets research; and asset allocation advice to our clients. Whatever **your** investment objectives, we'll work closely with you to help you achieve them.

Although the statements of fact and data in this document have been obtained from, and are based upon, sources that the Firm believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions included in this document constitute the Firm's judgment as of the date of this document and are subject to change without notice. This document is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. Past performance is not a guarantee of future results.

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Morgan Stanley Smith Barney GIFT, Inc. is an organization described in section 501 (c) (3) of the Internal Revenue Code of 1986, as amended. With regard to the GIFT program, donors seeking to maximize the U.S. income tax deduction for charitable contributions and planning should consult their tax advisors to determine the deductibility and advisability of such contributions.

**Cerulli Associates, 3Q 2013 Summary.** Cerulli Associates' data are based on data submitted by firms participating in Cerulli's survey. Morgan Stanley Wealth Management was ranked No. 1 in terms of assets under management out of the firms listed in the industry for the quarter with respect to Top Managed Account Program Sponsors Across All Industry Segments. This category includes Separate Account Consultant Programs, Mutual Fund Advisory Programs, ETF Advisory programs, Rep-as-Portfolio Manager programs, Rep-as-Advisor Programs and Unified Managed Account programs. Separate Account Consultant Programs are programs in which asset managers manage investors' assets in discretionary separate accounts. Mutual Fund Advisory programs and ETF Advisory programs are discretionary and nondiscretionary programs designed to systematically allocate investors' assets across a wide range of mutual funds or ETFs. Rep as Portfolio Manager programs are discretionary programs in which advice is an essential element; planning is undertaken or advice is treated as a separate service from brokerage. Rep as Advisor programs are nondiscretionary programs where the advisor has not been given discretion by the client and must obtain approval each time a change is made to the account or its investments. Unified Managed Accounts are vehicle-neutral platforms that simplify the delivery of multiple investment vehicles, such

as separate accounts, mutual funds, exchange-traded funds and individual securities through their integration with a single environment. Morgan Stanley Wealth Management was also ranked No. 1 in the following individual categories: Subadvisory Separate Account Consultant Sponsors, Open Separate Account Program Sponsors, Rep-as-Portfolio Manager Programs and Unified Managed Account Programs. Rankings are subject to change. Some historical figures may be revised due to newly identified programs, firm restatements, etc.

Tax management is an optional service for UMA accounts over \$500,000. Tax management services may adversely impact account performance and do not constitute tax advice or a complete tax sensitive program. There is not guarantee that tax management services will produce the desired result.

In Consulting Group's advisory programs, alternative investments are limited to US-registered mutual funds, separate account strategies and exchange-traded funds that seek to pursue alternative investment strategies or returns utilizing publicly traded securities. Investment products in this category 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 investments are not suitable for all investors.

To the extent the investments depicted herein represent international securities, you should be aware that there may be additional risks associated with international investing, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards. These risks may be magnified in emerging markets. International investing may not be for everyone. Small- and mid-capitalization companies may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of small- and mid-capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.

With respect to fixed income securities, please note that, in general, as prevailing interest rates rise, fixed income securities prices will fall.

Investing in the markets entails the risk of market volatility. The value of all types of investments may increase or decrease over varying time periods.

Asset allocation does not assure a profit or protect against loss.

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