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MARCH 28, 2011

Consulting Group Portfolio Management Group

This brochure provides clients with information about Morgan Stanley Smith Barney LLC, its Consulting Group, and the following investment management, consulting and monitoring programs and services they offer:

- Alternative Investments Programs
- Consulting Group Select UMA®
- Global Investment Solutions
- Legg Mason Private Portfolios
- Smith Barney 401(k) Advisor Program®
- Smith Barney Advisor
- Smith Barney Collective Funds Asset Allocation Service
- Strategic Portfolios
- TRAK CGCM
- TRAK NAV

IMPORTANT NOTE

- Do not use this document for the:
- Fiduciary Services Program
- Fiduciary Services—Legg Mason Manager Program
- Consulting and Evaluation Services Program
- Investment Management Services Program
- Portfolio Management Program
- Guided Portfolio Management Program
- Exchange Traded Funds Program
- Institutional Cash Management Program

See instead the “Form ADV Program Brochure – Morgan Stanley Smith Barney LLC”.
This is available at www.smithbarney.com/ADV or on request from your Financial Advisor.

YOU SHOULD READ AND CONSIDER CAREFULLY THE INFORMATION CONTAINED IN THIS BROCHURE BEFORE RETAINING MORGAN STANLEY SMITH BARNEY LLC TO PROVIDE ANY OF THE SERVICES DESCRIBED. THIS INFORMATION HAS NOT BEEN APPROVED OR VERIFIED BY ANY GOVERNMENTAL AUTHORITY.

Schedule H of Form ADV
SEC File Number 801-70103

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SmithBarney**

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INTRODUCTION

Morgan Stanley Smith Barney LLC (“MSSB”), through its Smith Barney channel (hereinafter referred to as “SB”) and its Consulting Group (“CG”) and Portfolio Management Group (“PMG”), provides a variety of services designed to meet the varying investment advisory and related needs of individual and institutional clients. Each program described in this brochure offers some or all of the following services: selection of, or assistance in selecting, an investment adviser; ongoing evaluation and review of investment advisers; evaluation and review of the composition of selected portfolios; discretionary portfolio management; custody; execution; and reports of activity in a client’s account. In the Consulting Group programs, the portfolio management of client accounts is undertaken by investment management firms that may or may not be affiliated with MSSB. However, in Portfolio Management Group, MSSB, acting primarily through the client’s Financial Advisor (the “Financial Advisor”) undertakes management of the client’s accounts.

Certain programs and services described in this brochure facilitate the retention by a client, or by MSSB on a client’s behalf, of investment management firms for the provision of portfolio management services. Information related to each specific investment manager is contained in a separate brochure, and available upon request through a client’s Financial Advisor.

On January 13, 2009, Morgan Stanley and Citigroup Inc. (“Citi”) agreed to combine the Global Wealth Management Group of Morgan Stanley & Co. Incorporated (“Morgan Stanley”) and the Smith Barney division (“Smith Barney”) of Citigroup Global Markets Inc. (“CGM”) into a new joint venture (the “Transaction”). The Transaction closed on June 1, 2009. The joint venture created as a result of the Transaction owns MSSB, an investment advisor and broker-dealer that is registered with the Securities and Exchange Commission.

MSSB’s advisory services are provided through two distribution channels. One distribution channel generally provides the advisory programs previously provided by Smith Barney and/or CGM and generally provides these programs through the same businesses and retail locations as did Smith Barney and/or CGM (the “SB Channel”). The other distribution channel generally provides the advisory programs previously provided by Morgan Stanley’s Global Wealth Management Group and generally provides these programs through the same businesses and retail locations, as did Morgan Stanley’s Global Wealth Management Group.

As a result of the Transaction, some of the services previously provided by SB are provided by or through MSSB while other services are provided by CGM. CGM is not part of the new joint venture, but continues to provide certain services in relation to Clients’ accounts as described in the section below entitled “Services provided by MSSB and CGM,” which explains the respective roles and functions of CGM and MSSB.

Clients should read and consider carefully the information contained in both this brochure and any relevant investment manager brochure. While MSSB believes that its professional investment advice can work to benefit many clients, there is no assurance that the objectives of any client in any of the programs described will be achieved.

ALTERNATIVE INVESTMENTS PROGRAMS

Services Provided

In the Alternative Investments Programs, MSSB shall identify, evaluate and propose to the client, alternative investments for the investment of funds held in the client’s account. The alternative investments may or may not be affiliated with MSSB. MSSB, an affiliate or a third party retained by MSSB (collectively, the “Reviewer”) shall review, or cause to be reviewed, each alternative investment that MSSB proposes and may or may not, in its sole discretion, create and make available a written report of such review. MSSB shall base its proposal to the client on information conveyed to it in writing by the client and such additional information as is reasonably required by MSSB to provide an appropriate proposal. This is a non-discretionary service, and clients are responsible for executing participation agreements directly with each alternative investment. Client acknowledges, understands and agrees that MSSB is NOT a fiduciary in this program (as defined in ERISA). The Reviewer’s evaluation may continue on an on-going basis, and MSSB may recommend a termination of the client’s participation interest if the Reviewer deems it advisable. In the event that MSSB makes a determination that a particular alternative investment previously proposed to, and subscribed by, the client is no longer an appropriate investment for the client, it shall be the client’s option (where possible) to change or continue to participate in the alternative investment. If the client wishes to continue to participate in the alternative investment, MSSB shall no longer provide any recommendation

or advice regarding such alternative investment. However, client shall continue to pay MSSB the alternative investments consulting fee in recognition of the advice previously provided by MSSB and where applicable for continuing services such as performance measurement and monitoring. Depending upon the specific alternative investment, such as an alternative investment that is subject to a lock-up period, client may not be able to liquidate the investment. Prior to investing, clients should review the offering materials for such illiquid investments, in particular the terms of any restrictions on the premature termination or liquidation of client's investment

Evaluations of certain alternative investments, including but not limited to investments affiliated with MSSB, are conducted by an independent consulting firm retained by MSSB and also in the business of evaluating the capabilities of alternative investments. The independent consulting firm generally follows a methodology similar to that used by the Reviewer in reviewing such alternative investments.

Special Considerations

As further described in the offering documents, an investment in alternative investments can be highly illiquid, is speculative and not suitable for all investors. Investing in alternative investments is intended for experienced and sophisticated investors only who are willing to bear the high economic risks of the investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include: loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; lack of liquidity, in that there may be no secondary market for the fund and none expected to develop; volatility of returns; restrictions on transferring interests in the fund; potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; absence of information regarding valuations and pricing; complex tax structures and delays in tax reporting; less regulation and higher fees than mutual funds; and advisor risk. Individual funds will have specific risks related to their investment programs that will vary from fund to fund.

Fees

In exchange for its services, MSSB may charge a consulting fee, receive a fee from the alternative investment or its sponsors or their affiliates, or a combination of both. Minimum account sizes are determined by the alternative investment manager. Fees are negotiable based on a number of factors, which may result in a particular client paying a fee greater or less than the standard fees. The amount of compensation received by MSSB and/or its affiliates may be greater if the alternative investment is managed by an MSSB affiliate, rather than an unaffiliated alternative investment manager. While the consulting fee includes compensation for MSSB's services, it does not include any fees or charges attributable to the client's participation in the alternative investment for which the client is separately responsible. MSSB's consulting fee is based on a percentage of the market value provided by the alternative investment manager as reflected in the client's alternative investments account. In cases where MSSB receives a portion of the management fee paid by a client to an alternative investments manager, and where MSSB charges a consulting fee, MSSB credits such fee to the client's account. In cases where MSSB charge a consulting fee, the standard annual fee charged by MSSB is 2.50%. Clients maybe eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled "***Client Fee Break Points.***"

CONSULTING AND EVALUATION SERVICES

In the Consulting and Evaluation Services ("CES") Program, MSSB provides clients with assistance in selecting one or more investment management firms to manage their accounts. CGM (as clearing broker for MSSB) may also provide trade execution, custody and related services. The minimum account size is established by the individual investment manager. In CES, the client typically enters into an investment advisory contract directly with the investment manager. Many investment management firms available through CES are otherwise available only to clients with significantly greater assets to invest.

Services Provided

In CES, MSSB or an affiliate analyzes a client's investment objectives and recommends one or more investment management firms in light of those objectives. Recommended managers may be affiliated or unaffiliated with MSSB.

MSSB does not exercise discretion for CES clients with respect to the retention of an investment manager; instead, MSSB makes recommendations, which the client may or may not follow. The client enters into an agreement with MSSB relating to its services and also into a separate investment advisory agreement with the investment manager. The manager is responsible for the implementation of any restrictions placed by the client on the account. There are

no restrictions on the client's ability to contact and consult directly with an investment manager, although clients are encouraged to discuss their accounts with their Financial Advisors. In addition to providing consulting and evaluation services regarding the client's use of investment managers, CGM may perform custody, execution and related services.

Recommendation of Investment Management Firms

Investment managers are evaluated meeting the Opinion or Access Research standard, and periodically reviewed, as described for the Fiduciary Services Program and as described below in the section entitled "*Research in Advisory Programs*."

As in FS and FS Legg Mason (the "Fiduciary Services Programs") described below, changes in a client's objectives are communicated by MSSB to the managers retained by the client. Because CES clients have independent contractual relationships with their investment management firms, MSSB cannot terminate a manager or reduce the assets allocated to it in light of MSSB's review efforts. However, if those efforts indicate that doing so is in a client's best interests, MSSB may recommend that the client take such action.

CG IAR also maintains a "Watch" policy for investment managers in its CES program. CG IAR's "Watch" policy is more fully described below under "Watch Policy." A Watch Status may, but is not certain to, result in a downgrade of the product's recommended status.

Account Information

CGM will confirm all transactions executed through CGM (as clearing broker for MSSB) and provide account statements at least quarterly. Clients may elect to waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication. Clients whose assets are in CGM's custody will periodically receive a Performance Review, which is an extensive statistical review and analysis of the account. The Performance Review is also available to clients whose assets are not in CGM's custody, and a fee may be charged for this service.

Fees

CES services are available on an asset-based fee basis, where the clients' fees to MSSB cover its services in reviewing and recommending investment managers as well as CGM's custody of securities and trade execution. Clients bear the cost of commissions or other transaction charges with respect to securities trades directed by the investment manager to firms other than CGM for execution. Alternatively, MSSB may be compensated on a non-asset-based fee basis solely by collecting commissions or other charges on transactions made for the client's account. In either case, the client pays separate fees to the investment manager employed. Transactions in fixed income and certain other securities may involve dealer mark-ups or mark-downs or other charges in addition to the asset-based fees. To the extent investment managers direct trades in such securities to CGM for execution, MSSB may realize profits or losses in connection with such trades that are separate from or additional to the fees paid by the CES client, but will not charge the client any mark-up or mark-down. See "GENERAL ACCOUNT INFORMATION—Additional Information Regarding Fees and Charges." Certain CES managers have entered into "prime brokerage" arrangements with MSSB or CGM; in which case, such managers may pay additional compensation to MSSB in consideration for such services. However, clients of such managers will not be charged any amount in addition to the manager fee and the fees or commissions charged by MSSB. The standard annual CES asset-based fee charged by MSSB is 2.50%. Clients may be eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled "*Client Fee Break Points*."

Fees are negotiable based on the level of services provided and types of securities traded, which may result in a particular client paying a fee either greater than or less than the standard fees. For accounts larger than \$10 million, fees generally are arranged separately on the basis of services provided. Fees generally are payable quarterly in advance. In addition to fees paid to MSSB, in the CES program, clients pay investment management fees separately to the investment manager. As an accommodation to the client, investment manager's fees may be payable through MSSB, which debits the client's account and remits the advisory fee to the investment manager. MSSB is not responsible for verifying the rate, or computing the manager fees or the value of the account used in this connection. In addition, the client will bear a proportionate share of the fees and expenses incurred by any mutual funds in which the client is invested. The prospectus of each of these funds describes these internal fees and expenses in detail. For more information relating to fees please see the section below entitled "Compensation from Funds."

CONSULTING GROUP SELECT UMA®

The Consulting Group Select UMA (“CG Select UMA”) program is a “Unified Managed Account” program. The CG Select UMA program offers a combined portfolio (the “Portfolio”) implemented by an investment manager (“Overlay Manager”) comprised of some or all of the following investment products (the “Investment Products”): (i) mutual funds; (ii) ETF’s; (iii) securities which Overlay Manager shall invest in based on a model portfolio (the “Model Portfolio”) provided by one or more investment managers (“Sub-Managers”); and/or (iv) securities in which an Executing Sub-Manager (as defined below) shall invest in based on its own investment decisions. Currently, MSSB, acting through its MSSB Private Portfolio Group division, is the Overlay Manager. Please refer to the Sections below entitled **MSSB’S ROLE AS OVERLAY MANAGER** and *Execution of Transactions When MSSB is the Overlay Manager*, for more information on overlay manager services provided by MSSB. The minimum account size for a CG Select UMA account is \$25,000.

Services Provided

A Financial Advisor, or a MSSB employee, if applicable, assists the client in the review and evaluation of investment objectives for each account through the use of a questionnaire and, if appropriate, updated confidential client information. Based on a review and evaluation of the client’s investment objectives, MSSB or a MSSB affiliate, if applicable, and the client (or MSSB in the event the client has elected Financial Advisor Discretion or Firm Discretion (as defined below)) shall select a Portfolio. A Portfolio is a multi-style investment approach that allocates assets in the client account to specific investment strategies. In order to construct the Portfolio, unless the client has elected the “custom” version of the Model (please see below), MSSB and the client will select a model (a “Model”), from among investment models pre-defined by MSSB. Each of the available Models will represent a different asset allocation appropriate for a different investment objective/risk tolerance. Unless the client has elected the “custom” version of the Model (please see below), MSSB will be responsible for setting the asset allocation of each Model, and adjusting the asset allocation from time to time as MSSB deems appropriate. This may include adding asset classes to any Model, at any time that MSSB determines that it is appropriate to do so (an “Asset Class Addition”). At times, there may be no allocation to some of the asset classes that were formerly in a Model. Unless the client has elected the “custom” version of the Model, Financial Advisor Discretion or Firm Discretion, if MSSB adds an asset class to a Model, MSSB will notify each client utilizing that Model of the Asset Class Addition, and shall follow the procedures outlined below for an Asset Class Addition.

If the client has not elected the “custom” version of the Model (please see below), the client may choose to adopt either the “tactical” or “strategic” version of the Model. MSSB may leave the tactical or strategic Model asset allocation unchanged for as long as MSSB deems appropriate. However, it is anticipated that MSSB will change the asset allocation of the tactical version more frequently than that of the strategic version. Typically, MSSB will change the tactical Model asset allocation several times per year, while MSSB will change the strategic version only about once per year. Changes in the asset allocation or an Asset Class Addition will likely result in transactions in the client account, and these transactions could have tax consequences for a taxable account.

If the client elects the “custom” version of the Model, the client (or MSSB in the event the client has elected Financial Advisor Discretion (as defined below)) will define the Model by setting the asset allocation for the Model and adjusting the asset allocation from time to time as the client (or MSSB in the event the client has elected Financial Advisor Discretion (as defined below)) deems appropriate. If the client elects the “custom” version of the Model, unless the client has elected Financial Advisor Discretion, the client (not MSSB) will determine the initial asset allocation for the Model and will be responsible thereafter for any adjustments to the asset allocation of the Model. The client’s Financial Advisor may utilize recommendations of the MSSB Global Investment Committee (“GIC”) as a resource in assisting the client in defining a custom Model. If the Financial Advisor does utilize MSSB GIC recommendations in connection with defining a custom Model, there is no guarantee that any Model defined will in fact mirror or track MSSB GIC recommendations.

Once MSSB and the client (or MSSB in the event the client has elected Financial Advisor Discretion (as defined below)) have selected the Model, MSSB and the client (or MSSB in the event the client has elected Financial Advisor Discretion or Firm Discretion (as defined below)) will construct the Portfolio by populating each asset class comprising the Model with one or more Investment Products. MSSB will offer one or more of each of the following Investment Products for each asset class: mutual funds, ETFs and/or separate accounts which Overlay Manager shall invest in based on a Model Portfolio provided by one or more Sub-Managers (or which the Executing Sub-Managers (as defined below) invest in

based on their own investment decisions). Unless the client has elected Financial Advisor Discretion or Firm Discretion, if MSSB determines that the asset class that a Sub-Manager or Investment Product is included in should be changed (an “Asset Class Change”), MSSB will notify each client utilizing that Sub-Manager or Investment Product of the Asset Class Change, and shall follow the procedures outlined below for an Asset Class Change. MSSB and Overlay Manager will enter into agreements with each of the Sub-Managers to be responsible for providing Model Portfolios to Overlay Manager or (in the case of Executing Sub-Managers) for investing assets in client accounts based on their own investment decisions.

With the client’s verbal, written or other consent, MSSB may assign the client to a different Model or change Sub-Managers or Investment Products in a client’s account.

In the client agreement with MSSB, clients authorize each Sub-Manager that provides a Model Portfolio (or implements its investment decisions directly) for an Investment Product selected for or by the client, to act as investment adviser to the client. The client authorizes each Sub-Manager, as investment adviser to the client, to exercise discretion to select securities for the client’s account by (i) delivering a Model Portfolio to Overlay Manager, which Overlay Manager will implement (subject to any client instructions accepted by Overlay Manager), or (ii) (in the case of an Executing Sub-Manager) implementing its investment decisions directly. MSSB may provide each Sub-Manager with such information regarding the client as may be reasonably necessary for the Sub-Manager to fulfill its obligations to the client and to MSSB and the Overlay Manager. The Sub-Manager may delegate any or all of its functions to an affiliated or unaffiliated firm that meets MSSB’s research standards, provided that the Sub-Manager shall remain liable for the performance of all its obligations in its agreement with MSSB.

In the CG Select UMA program, clients may elect the “Financial Advisor Discretion” option, pursuant to which the client grants MSSB discretion to (a) select Sub-Managers or Investment Products for the client, (b) change Sub-managers and Investment Products and (c) (if the client has elected the “custom” version of the Model) define the Model asset allocation and adjust the asset allocation for the client. MSSB will exercise this discretion primarily through an MSSB employee (the “Discretionary FA”), who shall initially be the client’s Financial Advisor. If, for any reason, and in the sole discretion of MSSB, the Discretionary FA is unable to render such services, temporarily or permanently, or terminates his or her employment with MSSB, MSSB shall continue to render such services and shall promptly assign another Financial Advisor to act as the Discretionary FA on a temporary or permanent basis.

In the CG Select UMA program, clients may elect the “Firm Discretion” option, pursuant to which the client grants MSSB discretion to (a) select Sub-Managers or Investment Products for the client and (b) change the Sub-Managers or Investment Products. Clients may choose any one of three Firm Discretion options (mutual funds only, ETFs only or any Investment Product type), and only the type of Investment Product designated by the client will be utilized to populate the asset classes comprising the Model which the client has selected. If the client elects Firm Discretion, the client may not select a “custom” Model or Financial Advisor Discretion, and the client’s account does not qualify for Tax Management (as described below).

Pursuant to an agreement with MSSB, Overlay Manager shall invest and re-invest the assets in each client account, except that, in certain strategies, Sub-Managers (hereinafter “Executing Sub-Managers”; “Sub-Managers” includes Executing Sub-Managers as the context requires herein) are granted discretion by MSSB to implement recommendations directly. The Overlay Manager will seek to manage the client’s account in a manner consistent with the Model and Investment Products selected by the client and MSSB and the Model Portfolio provided by any applicable Sub-Manager, as qualified by any client instructions accepted by the Overlay Manager, including, without limitation, any, instructions in connection with the client’s selection of Tax Management services for the account, as described below. MSSB may change the Overlay Manager (which change may involve MSSB selecting an Overlay Manager that is or is not affiliated with MSSB) in its sole discretion at any time and for any reason. If there is a disruption in the services provided by Overlay Manager for any reason, MSSB or an affiliate may act as Overlay Manager during the period of the disruption. This may impact account performance. In addition, in the event of a disruption, MSSB may liquidate the applicable Portfolio (in whole or in part), and invest the proceeds in an affiliated money market fund or other cash equivalents.

Periodically, Overlay Manager will re-balance the client’s account in accordance with a re-balancing protocol specified by MSSB and agreed to by Overlay Manager.

Each Sub-Manager, mutual fund and ETF included as an Investment Product shall be selected from the universe of Sub-Managers, mutual funds and ETFs (which may or may not be affiliated with MSSB) with which MSSB has entered into an agreement, and for which MSSB, an affiliate (or a third party retained by MSSB or an affiliate) has

performed research meeting MSSB's "Access" research standard, or more rigorous "Opinion" research standard, and determined that MSSB can recommend the Investment Product. Please refer to the Section below entitled "*Research in Advisory Programs*" for additional information on the evaluation and selection of mutual funds, ETFs and Sub-Managers comprising Investment Products.

In the event that MSSB makes a determination that an Investment Product previously recommended to a client is no longer approved for the Select UMA program, either (x) a replacement Sub-Manager or Investment Product shall be selected by MSSB and the client (or by MSSB if the client elects Financial Advisor Discretion or Firm Discretion) from recommendations provided by MSSB, or (y) this Agreement shall automatically terminate upon a date selected by MSSB and communicated to the client with reasonable advance notice. Unless the client has elected the Financial Advisor Discretion or Firm Discretion option as described above, before a Sub-Manager is engaged or an Investment Product is selected for a client's assets pursuant to this paragraph, MSSB or an affiliate will attempt to notify the client orally or in writing and will attempt to obtain the oral or written concurrence of the client. However, MSSB need not seek or obtain the client's concurrence if MSSB has not obtained oral or written direction from the client regarding the change in an Investment Product relating to an Investment Product Downgrade as described above.

Notwithstanding the previous paragraphs, unless the client has elected Financial Advisor Discretion or Firm Discretion, MSSB will notify each client utilizing a Sub-Manager or Investment Product impacted by an Asset Class Change of the Asset Class Change. Such notification shall include an appropriate Sub-Manager or Investment Product (the "Change Default Product") that is in the asset class that the client has selected. If the client does not select a different Sub-Manager or Investment Product (or change to a different Model) prior to a date specified by MSSB in the notice of Asset Class Change, MSSB will change the Sub-Manager or Investment Product to the Change Default Product.

Notwithstanding the previous paragraphs, unless the client has elected a "custom" Model, Financial Advisor Discretion or Firm Discretion, MSSB will notify each client utilizing a Model impacted by any Asset Class Addition, of the Asset Class Addition. Such notification shall include an appropriate Sub-Manager or Investment Product (the "Addition Default Product") for any asset class added to the impacted Model. If the client does not select a different Sub-Manager or Investment Product (or change to a different Model) prior to a date specified by MSSB in the notice of Asset Class Addition, MSSB will populate the new asset class with the Addition Default Product.

Notwithstanding the preceding paragraphs, if (a) the amount in an Investment Product or Model in a client's account falls below the minimum for that Investment Product or Model (due to re-balancing, market activity or any other reason) or (b) a Sub-Manager elects to terminate its investment advisory relationship with the client, MSSB may (without further consent from the client) transfer the client's assets to another appropriate Investment Product or Model, which Investment Product or Model has a minimum investment for which the client's account qualifies.

In the CG Select UMA program, a client may elect tax management ("Tax Management") services for the account. In order to elect Tax Management services, the client must complete and sign a Tax Management Services form, and deliver the signed form to MSSB. Tax Management services may conflict with investment decisions of applicable Sub-Managers and/or MSSB or Overlay Manager rebalancing decisions. In the event and to the extent of any such conflict, the Tax Management services selected by the client will prevail and contrary MSSB, Overlay Manager and/or Sub-Manager investment advice will not be implemented for as long as such advice is contrary to such Tax Management services. As a result: (i) the account may not receive the benefits, including gains and avoided losses, of certain recommended purchases and sales of securities; and (ii) the account's composition and performance may vary significantly from that of client accounts for which similar Tax Management services have not been selected.

Account Information

CGM (as clearing broker for MSSB) provides clients with confirmations of all transactions and account statements at least quarterly, and MSSB shall provide a periodic Performance Review, which is an extensive statistical review and analysis of the account. Clients with a CG Select UMA account may elect to waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication. Clients may also receive mutual fund or ETF prospectuses, where appropriate.

MSSB or an affiliate will provide each client, prior to delivery of the client agreement in executed form, with a Form ADV Part II or similar document (the "Disclosure Document") and privacy notice (the "Privacy Notice") for the Overlay Manager, MSSB and each Sub-Manager. This document constitutes the Disclosure Document for the

Overlay Manager and MSSB. In the client agreement, each client consents to electronic delivery of Disclosure Documents and Privacy Notices for MSSB, Overlay Manager and each Sub-Manager. The client may revoke this consent to electronic delivery at any time by contacting the client's Financial Advisor, revoking the consent and requesting paper copies of the Disclosure Documents or Privacy Notices.

In the CG Select UMA Program, a client may request in writing that certain specified securities not be purchased for his or her account. Also, a client generally may specify that certain categories of securities not be purchased. In this event, the Overlay Manager will determine in its sole discretion the specific securities that will be treated as falling within the restricted category. In making this determination, the Overlay Manager may rely on outside sources, such as standard industry codes and research furnished by independent service providers. Restrictions imposed by a client on the management of the client's account will not apply to or affect the internal management of a mutual fund or exchange traded fund purchased for the account in accordance with the Portfolio selected by the client. In the event that a security or category of securities is restricted, the portion of the account that would have been invested in such security or category of securities will be invested in cash or cash equivalents. This will impact the performance of the account relative to an account that is fully invested in securities.

Fees

The client pays an asset-based fee to MSSB (the "MSSB Fee"), which covers investment advisory services, custody of securities, trade execution with or through CGM, as well as compensation to any Financial Advisor. However, the Overlay Manager and Sub-Manager fees are separate from the MSSB Fee. In addition, MSSB currently receives a fee of up to 0.12% from all participating mutual funds for non-ERISA assets. A portion of these fees may represent revenue sharing if and to the extent that they exceed what the mutual fund would otherwise have paid for such services. Thus, MSSB has a conflict to recommend mutual funds over separately managed accounts or ETF's. Also, certain transactions in fixed income and certain other securities may involve dealer mark-ups or mark-downs or other charges in addition to the asset-based fees, although generally MSSB will not realize any additional compensation. See "GENERAL ACCOUNT INFORMATION—Additional Information Regarding Fees and Charges" and "Compensation from Funds". The standard annual MSSB Fee for the CG Select UMA Program is 2.00% of the market value of the client's account.

Fees are negotiable based on a number of factors, which may result in a particular client paying a fee greater or less than the standard fees. Fees are generally payable quarterly in advance. Also, if the Financial Advisor Discretion option is chosen, the annual fee includes an additional charge for Financial Advisor discretionary services of 25% of MSSB's basic advisory fee described above for a total maximum MSSB Fee of 2.50%. Clients may be eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled "***Client Fee Break Points.***"

As indicated above, the mutual fund, ETF, Overlay Manager and Sub-Manager fees are separate from the client fee charged by MSSB. The Overlay Manager fee is up to a 0.12% asset-based annual fee. The Sub-Manager fees will vary depending on the Sub-Manager and the investment strategy of the Sub-Manager. The asset-based annual fees of the Sub-Managers generally range from 0.20% to 0.75% for the CG Select UMA Program. For certain investment styles there may be a mutual fund and separately managed account offered by the same investment management firm and, therefore, the underlying investments in the separately managed account and the mutual fund may be substantially identical. Because the underlying expenses and fees of the separately managed account are generally lower and the performance of a separately managed account is generally higher than the comparable mutual fund, if the client meets the minimum level of investment for the separate managed account, the client may have a financial benefit to select the separately managed account as the investment product.

EXCHANGE TRADED FUNDS PROGRAM

The Exchange Traded Funds ("ETF") Program, a program administered by both the Portfolio Management Group (PMG) and Consulting Group, offers discretionary, individualized management services to clients. The minimum account size is \$25,000. The ETF Program operates in a manner substantially similar to the PM, GIS and GPM Programs. Any differences are noted in this section.

Services Provided

ETF accounts are managed by selected Financial Advisors who have successfully completed the PM, GIS or GPM educational programs that includes coursework in investment analysis and portfolio management; currently hold a

Consulting Group title; or have successfully completed an educational program that includes ETF investment analysis and portfolio management (“ETF Portfolio Manager”). Under certain circumstances based primarily upon the FA’s prior investment experience, this educational program may be waived by Senior Portfolio Management Group or CG Management. Working in his or her local SB branch office, an ETF Portfolio Manager assists his or her client in determining investment objectives and then manages the client’s account on a discretionary basis in a manner consistent with those objectives.

In managing client accounts, the ETF Portfolio Manager is subject to certain guidelines established by PMG and CG relating to economic sector and security diversification, approval of securities which may be purchased for ETF accounts and asset-mix parameters. Limited types of options transactions (i.e., covered options writing and protective put buying) may also be conducted.

Account Information

CGM provides clients with confirmation of all transactions executed through CGM and account statements at least quarterly; and MSSB shall provide periodic Performance Reviews, which are extensive statistical analyses of the account.

Fees

Except in certain limited cases as described more fully below, the client pays an asset-based fee to MSSB which covers investment advisory services, custody of securities and trade execution with or through CGM. Transactions in fixed income and certain other securities may involve dealer mark-ups or mark-downs or other charges in addition to the asset-based fees, although generally MSSB will not realize any additional compensation. MSSB currently receives a fee of up to 0.12% from all participating mutual funds for non-ERISA assets. Thus, MSSB has a conflict to recommend mutual funds over individual securities or ETF’s. See “GENERAL ACCOUNT INFORMATION—Additional Information Regarding Fees and Charges.” The standard annual fees for equity, balanced and fixed income accounts in the program are 2.00%. Clients maybe eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled “***Client Fee Break Points.***” The minimum account size is \$25,000.

Fees paid to MSSB in the ETF Program do not include internal expenses of the Exchange Traded Funds, which are assessed directly against the ETF. This could cause a discrepancy between the performance of the ETF and the performance of its respective benchmark.

Fees are negotiable based upon a number of factors including, but not limited to, the type and size of the account and the range of services provided by the ETF Portfolio Manager. In some instances clients may pay a higher fee than indicated in the fee table above. Fees are generally payable quarterly and in advance. Because this program does not involve investment managers unaffiliated with MSSB, MSSB retains the entire fee. In addition, the client will bear a proportionate share of the fees and expenses incurred by any mutual funds in which the client is invested. The prospectus of each of these funds describes these internal fees and expenses in detail. For more information relating to fees please see the section below entitled “Compensation from Funds.”

FIDUCIARY SERVICES—LEGG MASON MANAGER PROGRAM

Except as otherwise provided in this Section, the Fiduciary Services—Legg Mason Manager Program (the “FS Legg Mason Program”) operates in a manner substantially similar to the FS Program described immediately below. However, in the FS Legg Mason Program, the investment management portfolios are offered by Legg Mason Private Portfolio Group, LLC (the “Manager”) and one or more investment managers that serve as subadvisers to the Manager (the “Sub-Manager”). For the provision of portfolio management services, MSSB acts as the Overlay Manager. Please refer to the Sections below entitled MSSB’S ROLE AS OVERLAY MANAGER and *Execution of Transactions When MSSB is the Overlay Manager*, for more information on overlay manager services provided by MSSB.

Services Provided

The Sub-Managers available for new accounts in the FS Legg Mason Program currently are the following investment management firms, each of which is affiliated with the Manager: ClearBridge Advisors, LLC, Western Asset Management Company and Brandywine Global Investment Management, LLC. The Consulting Group and the Manager may agree from time to time to make additional Sub-Managers available for new accounts in the FS Legg Mason Program, including Sub-Managers that may or may not be affiliated with the Manager or MSSB.

Information related to the Manager and the Sub-Managers affiliated with the Manager is contained in a separate brochure (the “Legg Mason Brochure”), which is available upon request through a client’s Financial Advisor.

In the FS Legg Mason Program, MSSB or a MSSB affiliate analyzes a client’s investment objectives and retains the Manager and one or more Sub-Managers on the client’s behalf, as described above, to manage assets in accordance with those objectives, by implementing one of various investment management portfolios (the “Investment Management Portfolios”) available. Which Sub-Manager(s) are involved in managing a client’s account will depend on the Investment Management Portfolio selected by the client. With the assistance of a Financial Advisor, clients can also customize an Investment Management Portfolio. In the FS Legg Mason Program, the client enters into an investment advisory agreement with MSSB that provides MSSB with the discretion to retain the Manager and one or more Sub-Managers on the client’s behalf. MSSB separately contracts with the Manager for its provision of services and the Manager separately contracts with the Sub-Managers for their provision of services. As described in more detail in the Legg Mason Brochure, the Sub-Managers instruct MSSB on securities to be bought and sold for Investment Management Portfolios and MSSB (as Overlay Manager) manages client accounts in the Program based on these instructions. In addition to single-style Investment Management Portfolios, the Manager offers multi-style Investment Management Portfolios, including portfolios that include both equity and fixed income styles.

Please see the Legg Mason Brochure for a list of the Investment Management Portfolios available in the FS Legg Mason Program.

The minimum account size for equity and balanced accounts in the FS Legg Mason Program is generally \$50,000, and the minimum account size for fixed income accounts is generally \$100,000, although certain portfolio managers may establish different minimums.

Evaluation and Selection of Investment Management Firms

The Manager and Sub-Managers in the FS Legg Mason Program undergo an evaluation process meeting the Opinion or Access Research status similar to that described for the FS Program. If an Investment Management Portfolio includes any mutual funds, those mutual funds may not have been evaluated or reviewed meeting the Opinion or Access Research standard.

Fees

The FS Legg Mason Manager Program is available pursuant to the same fee arrangements as those described for the FS Program. The fees for this Program is 2.97% for equity and balanced managers and 2.82% for fixed-income managers. Clients maybe eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled “***Client Fee Break Points.***”

FIDUCIARY SERVICES

In the Fiduciary Services (“FS”) Program, MSSB retains investment management firms that may or may not be affiliated with MSSB to manage client accounts and also provides custody, execution (through CGM as clearing broker for MSSB) and related services for a single asset-based fee. For certain investment managers, MSSB is the Overlay Manager. Please refer to the Sections below entitled *Execution of Transactions When MSSB is the Overlay Manager*, MSSB’S ROLE AS OVERLAY MANAGER, and *Trade Allocations*, for more information on overlay manager services provided by MSSB. The minimum account size for equity and balanced accounts generally starts at \$100,000 and the minimum account size for fixed income accounts generally starts at \$250,000. However, certain investment managers, firms and investment styles may require different minimums. Many of the investment management firms MSSB may retain for the FS Program clients are otherwise available only to clients with significantly greater assets to invest.

Services Provided

In the FS Program, MSSB analyzes a client’s investment objectives and retains on the client’s behalf one or more investment management firms to manage assets in accordance with those objectives. In this program, the client enters into an investment advisory agreement with MSSB that provides MSSB with the discretion to retain one or more investment management firms on the client’s behalf. MSSB, in turn, separately contracts with such firms for

their provision of services. For certain investment managers that provide a model portfolio to the Overlay Manager for execution, MSSB and Overlay Manager will enter into agreements with the investment manager to be responsible for providing Model Portfolios to Overlay Manager for investing assets in client accounts based on the investment manager's own investment decisions.

In the client agreement with MSSB, the clients authorize MSSB to engage each investment manager that provides a Model Portfolio (or implements its investment decisions directly) to act as investment adviser to the client. The client authorizes each investment manager, as investment adviser to the client, to exercise discretion to select securities for the client's account by: (i) delivering a Model Portfolio to Overlay Manager, which Overlay Manager will implement (subject to any client instructions accepted by Overlay Manager); or (ii) (in the case of an executing investment manager) implementing its investment decisions directly.

MSSB may change the Overlay Manager (which change may involve MSSB selecting an Overlay Manager that is or is not affiliated with MSSB) in its sole discretion at any time and for any reason. If there is a disruption in the services provided by Overlay Manager for any reason, an affiliate of MSSB may act as Overlay Manager during the period of the disruption. This may impact account performance. In addition, in the event of a disruption, MSSB may liquidate the applicable Portfolio (in whole or in part), and invest the proceeds in an affiliated money market fund or other cash equivalents.

MSSB also offers blended portfolios through a multi-style product including both equity and fixed-income securities of various risk and return characteristics. The minimum account size for the multi-style product generally starts at \$100,000, although certain investment managers and firms may establish different minimums.

In most cases, MSSB will obtain the concurrence of the client before retaining an investment manager. Although clients are not prohibited from directly contacting an investment management firm retained to manage their accounts, clients are encouraged to use their Financial Advisor as their primary contact.

Establishment of Client Objectives

Clients work with their Financial Advisor to establish the investment objectives for each of their accounts. As part of this process, an investment questionnaire and a confidential client information form is completed with respect to the client. These documents are transmitted to the Consulting Group for analysis.

Evaluation and Selection of Investment Management Firms

MSSB will recommend one or more investment management firms to provide portfolio management of client accounts, based on each client's objectives and circumstances. MSSB retains only investment managers that have been evaluated and reviewed as described below in the section entitled "*Research in Advisory Programs*," and in the multi-style product, only investment managers who are capable of managing blended portfolios within a single account.

Investment managers must be reviewed and evaluated, meeting the Opinion Research or Access Research standard (as defined in the section entitled "*Research in Advisory Programs*"), to be eligible to be an investment manager in the FS Program. The research may be conducted by MSSB's Investment Advisor Research group ("IAR") or by a third party retained by MSSB.

In the event of a Manager Downgrade (as defined in the section entitled "*Research in Advisory Programs*"), where an investment manager no longer meets the Opinion or Access Research standards and MSSB determines that it is advisable and in the best interest of a client, MSSB may terminate an investment management firm's management of the client's account or stop recommending new client assets to such firm in the FS Program. Also in the event of a Manager Downgrade, MSSB may transfer a client's assets from one manager to another in the FS Program. Before a manager is engaged or a client's assets are transferred from the current manager to another manager, MSSB will attempt to notify the client orally or in writing and will attempt to obtain the oral or written concurrence of the Client. It is understood, however, that MSSB need not seek or obtain the client's concurrence if MSSB has not obtained oral or written direction from the client regarding the change in managers.

IAR also maintains a "Watch" policy for investment managers in its FS Program. IAR's "Watch" policy is more fully described below under "Watch Policy." A Watch status may, but is not certain to, result in a downgrade of the product's recommended status.

Account Information

MSSB confirms all transactions executed through CGM (as clearing broker for MSSB) and provides account statements at least quarterly. Clients also receive periodically a Performance Review, which is an extensive statistical review and analysis of the account. Clients may elect to waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication. Clients may also receive mutual fund prospectuses, where appropriate.

In the FS Program, a client may request in writing that certain specified securities not be purchased for his or her account. Also, a client generally may specify that certain categories of securities not be purchased. In this event, MSSB will determine in its sole discretion the specific securities that will be treated as falling within the restricted category. In making this determination, MSSB may rely on outside sources, such as standard industry codes and research furnished by independent service providers. Restrictions imposed by a client will not apply to or affect the internal management of a mutual fund or Exchange Traded Fund purchased for the account.

Fees

The FS Program is available only on the basis of an asset-based fee paid to MSSB. This fee covers the services described above (including the investment manager's fee), as well as custody of securities and trade execution with or through CGM (as clearing broker for SB). Clients bear the cost of commissions or other transaction charges with respect to securities trades directed by the investment manager to firms other than CGM for execution. Transactions in fixed income and certain other securities generally involve payment of mark-ups or mark-downs or other charges to dealers other than MSSB, in addition to the asset-based fees. See "GENERAL ACCOUNT INFORMATION — Additional Information Regarding Fees and Charges."

The fees for this Program is 2.97% for equity and balanced managers and 2.82% for fixed-income managers. Clients maybe eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled "***Client Fee Break Points.***"

Fees are negotiable based on a number of factors, which may result in a particular client paying a fee greater or less than the standard fees. Fees are generally payable quarterly in advance. The portion of the asset-based fee paid by MSSB to investment management firms depends upon the asset class, the investment style and the total amount of assets allocated to the investment manager in the FS Program. MSSB generally pays its investment managers based on the following table:

| <u>Investment Styles</u> | <u>Annual Fiduciary Services Manager Fee</u> |
|---|--|
| All Cap, Large Cap, | 0.36% |
| Large Cap Balanced, Convertible Securities, Real Estate Investment Trusts (REITs) | |
| Mid Cap | 0.40% |
| Small Cap..... | 0.42% |
| Fixed Income | Between 0.23% and 0.35% |
| Global, International or Emerging | Between 0.36% and 0.48% |
| Markets, Non Diversified Portfolios | |

The investment manager fees listed herein are subject to change without notice. In the case of equity, balanced and multi-style accounts, MSSB segregates 0.47% of the fee which is charged to clients, or in the case of fixed income accounts 0.32% of the fee, and applies all or a portion of it to the asset-based fee paid to investment manager firms. When MSSB's payment to a manager firm is less than the segregated amount (0.47% or 0.32% respectively), MSSB retains a larger portion of the fee charged to clients. Thus, MSSB has an incentive to recommend investment managers that are paid less, because it will retain a higher fee. When MSSB's payment is greater than the segregated amount, MSSB supports the fee to the manager firm and in effect retains a lesser portion of the fee charged to clients. No portion of the segregated amount is paid to Financial Advisors, who therefore have no direct financial incentive to recommend one manager firm over another manager firm that offers the same type of style. However, Financial Advisors' compensation is directly affected by the size of the client's annual fee. Client acknowledges that if the Manager is not an Executing Manager, the fee that MSSB pays the Manager will generally be lower than what it would have been had the Manager been an Executing Manager (and it may also be lower than the Manager fee disclosed above). MSSB may be compensated where it (and not the Manager) provides implementation services, and in that case the Manager in effect is paid less. Since MSSB pays the Manager its fee from the Fee that MSSB receives from the Account, MSSB may have an incentive to recommend a Manager that is not an Executing Manager.

GLOBAL INVESTMENT SOLUTIONS

The Global Investment Solutions ("GIS") is comprised of dedicated portfolio managers ("GIS Portfolio Managers") and support personnel within MSSB's Consulting Group division who are responsible for implementing investment decisions for clients' accounts within specialized investment strategies. On an ongoing basis, CG generally requires GIS accounts to have a minimum asset value of \$3,000,000, however, smaller accounts may be accepted. In addition, CG may impose a higher minimum upon prior written notice to a client. If the account falls below the account minimum, CG may require the client to deposit additional cash or securities to bring the account up to the account minimum or close the account.

Services Provided

Client accounts are generally referred to GIS Portfolio Managers through the client's FA. The GIS strategies are customized for each client account based on information provided by the client regarding his or her financial situation, investment objectives, and reasonable restrictions. The GIS Program is normally provided on a fully discretionary basis. GIS Portfolio Managers are selected by senior MSSB management to manage accounts in GIS based on strategies employed and separate account management experience. GIS Portfolio Managers and administrators are primarily responsible for reviewing each client account. Accounts are generally reviewed monthly or quarterly by the client's portfolio manager and/or portfolio administrator. Advisory clients are free to contact and consult with their GIS Portfolio Manager during normal business hours.

Depending on their particular strategy, GIS Portfolio Managers may be able to invest in a broad range of securities and financial instruments, including, among others, equity securities, warrants, debt securities, commercial paper, certificates of deposits, municipal securities, mutual funds (including mutual funds for whom certain affiliates of

MSSB act as investment manager and administrator), U.S. government securities, options contracts, futures contracts, and limited partnerships (including limited partnerships for whom certain affiliates of MSSB act as general partner and investment adviser).

GIS Portfolio Managers are permitted to provide advice with respect to a wide variety of instruments generally referred to as derivatives, including, but not limited to, forward contracts on securities and foreign currencies, swaps, structured notes, caps, collars, floors, equity-linked securities and liquid yield option notes. Other securities that MSSB provides advice with respect to include fixed income securities issued by foreign governments, agencies and corporations and private investments in private real-estate related companies. MSSB also provides advice with respect to investments in a variety of pooled vehicles that invest in the securities and other instruments identified further in this discussion. MSSB uses derivatives consistent with its focus on managing the expected return and the risk exposure of the overall portfolio. MSSB employs derivatives in situations where it believes it can help increase expected returns or reduce risks at a lower cost than a cash market alternative.

Account Information

CGM provides clients with confirmation of all transactions executed through CGM, account statements at least quarterly and MSSB will provide periodic Performance Reviews, which are statistical analyses of the account. Clients may elect to waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication. Clients may also receive mutual fund prospectuses, where appropriate.

In the GIS program, a client may request in writing that certain specified securities not be purchased for his or her account. Also, a client generally may specify that certain categories of securities not be purchased. In this event, MSSB will determine in its sole discretion the specific securities that will be treated as falling within the restricted category. In making this determination, MSSB may rely on outside sources, such as standard industry codes and research furnished by independent service providers.

Fees

Depending upon, among other things, the strategy being implemented, MSSB charges an annual fee (the “GIS Program Fee”) for its services payable quarterly, as follows:

| <u>Investment Strategy</u> | <u>Max. Annual GIS Fee</u> | |
|------------------------------------|-----------------------------------|-----------------------------------|
| Equity Accounts | | |
| Minimum Account Size: \$100,000 | 2.85% | (0.35% PM fee included) |
| Fixed Income Accounts | | |
| Minimum Account Size: \$5 million | 2.50% | (0.20% PM in addition to GIS fee) |
| U.S. Municipal Accounts | | |
| Minimum Account Size: \$5 million | 2.50% | (0.15% PM in addition to GIS fee) |
| Cash Management Accounts | | |
| Minimum Account Size: \$20 million | 2.50% | (0.05% PM in addition to GIS fee) |

As noted in the above fee schedule, the fee paid to the portfolio manager is included in the client fee for the equity styles, however, for fixed-income the client will pay an additional fee to the portfolio manager in addition to the program fee. The above rates are negotiable depending upon the particular circumstances of the client. The GIS Fee covers investment advisory, custodial, execution and other client-related services performed by MSSB. It does not cover any interest charges, national securities exchange fees, charges for transactions not executed through MSSB or its affiliates, as a broker-dealer, or other fees associated with securities transactions or required by law. Clients will bear their proportionate share of the expenses of any Fund in which their assets are invested, including (to the extent permitted by law) management, administration and distribution fees which may be paid to affiliates of MSSB where such affiliates act as investment manager, administrator and/or administrator of such Funds. The fee may be higher or lower than the fees that MSSB would charge a client if the client had purchased the services covered by the fee separately, depending on the cost of the services if provided separately and the trading activity in the client’s account. The fee may be higher or lower than the fees that MSSB charges other clients, depending on the extent of

services provided to those clients and the cost of such services; and may be higher or lower than the cost of similar services offered through other financial firms, including those offered through MSSB's affiliates.

Financial Advisers who recommend the GIS Program to their clients receive compensation as a result of a client's participation in the GIS Program. The amount of this compensation may be more than what the Financial Adviser would receive if the client paid separately for investment advice, brokerage, and other services. Financial Advisers may therefore have a financial incentive to recommend the GIS Program over other MSSB services.

Account Minimum

On an ongoing basis, MSSB generally requires GIS accounts to have the minimum asset value set forth above, however, smaller accounts may be accepted. In addition, MSSB may impose a higher minimum upon prior written notice to a client. If the account falls below the account minimum, MSSB may require the client to deposit additional cash or securities to bring the account up to the account minimum or close the account.

GUIDED PORTFOLIO MANAGEMENT PROGRAM

The Guided Portfolio Management Program ("GPM"), a part of Portfolio Management Group ("PMG"), offers discretionary, individualized investment management largely based on research by affiliates of MSSB. The minimum account size is \$25,000.

Services Provided

GPM is administered and overseen by PMG personnel. GPM accounts are managed by selected Financial Advisors who have successfully completed an investment analysis and portfolio management training session. Working in his or her local SB branch office, the Financial Advisor helps the client select the appropriate investor categories: Growth Equity, Equity Income, Balanced Growth, Balanced Moderate, Fixed Income and International Model. The Financial Advisor then implements security selections generally (but not exclusively) from securities recommended by Citi's Equity Research Department or closed-end mutual funds or ETFs. The composition and asset allocation of each client portfolio may vary depending on a variety of factors, including, without limitation, specific investment goals and restrictions articulated by a client and overall economic and market conditions.

In managing accounts, Financial Advisors must comply with guidelines set by the PMG concerning asset allocation, economic sector and position diversification, and fixed income components. ETFs and limited types of options transactions (i.e., covered options writing and protective put buying) may be conducted.

Account Information

CGM provides clients with confirmations of all transactions, account statements at least quarterly and MSSB shall provide a periodic Performance Review, which is an extensive statistical review and analysis of the account. Client may elect to waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication. Clients may also receive mutual fund prospectuses, where appropriate.

In the GPM program, a client may request in writing that certain specified securities not be purchased for his or her account. Also, a client generally may specify that certain categories of securities not be purchased. In this event, MSSB will determine in its sole discretion the specific securities that will be treated as falling within the restricted category.

In making this determination, MSSB may rely on outside sources, such as standard industry codes and research furnished by independent service providers.

Fees

The client pays an asset-based fee to MSSB which covers investment advisory services, custody of securities and trade execution with or through CGM. Transactions in fixed income and certain other securities may involve dealer markups or mark-downs or other charges in addition to the asset-based fees, although generally MSSB will not realize any additional compensation. MSSB currently receives a fee of up to 0.12% from all participating mutual funds for non-ERISA assets. A portion of these fees may represent revenue sharing if and to the extent that they exceed what the mutual fund would otherwise have paid for such services. Thus, MSSB has a conflict to recommend mutual funds over individual securities or ETF's. See "GENERAL ACCOUNT INFORMATION—Additional Information Regarding Fees and Charges." The standard annual fee for the GPM program is 3.00% and

the minimum account size is \$25,000. Clients maybe eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled “***Client Fee Break Points.***”

Generally, fees are negotiable and are payable quarterly in advance. Because this program does not involve investment managers unaffiliated with MSSB, MSSB retains the entire fee. If the client intends on investing a majority of his or her assets in ETFs, the Client should consider utilizing the Exchange Traded Funds Program noted below.

In addition, the client will bear a proportionate share of the fees and expenses incurred by any mutual funds in which the client is invested. The prospectus of each of these funds describes these internal fees and expenses in detail. For more information relating to fees please see the section entitled “Compensation from Funds.”

INSTITUTIONAL CASH MANAGEMENT

The Institutional Cash Management Program (“ICM”) offers discretionary, individualized management services to institutional clients. The minimum account size is \$10,000,000. ICM is only available to institutional clients.

Services Provided

ICM is administered and overseen by PMG personnel. ICM accounts are managed by selected Financial Advisors who have successfully completed an educational program that includes coursework in investment analysis and portfolio management. Under certain circumstances, based primarily upon the FA’s prior investment experience, this educational program may be waived by the Program Director of the Portfolio Management Group. Working in his or her local SB branch office, an ICM Portfolio Manager assists his or her client in determining investment objectives and then manages the client’s account on a discretionary basis in a manner consistent with those objectives.

In managing client accounts, the ICM Portfolio Manager may be subject to certain guidelines established by the client relating to various eligible cash and cash equivalents, and an affiliated money market fund which may be purchased for the ICM accounts. If securities held in the ICM account become noncompliant with such guidelines, the ICM Portfolio manager will liquidate such securities in an orderly manner within a reasonable period of time.

An ICM Portfolio Manager may agree with a client to implement a client-developed investment strategy that the client believes is sensitive to the client’s particular tax situation. As neither MSSB nor any MSSB affiliate provides tax advice, however, neither the Portfolio Manager, MSSB nor any MSSB affiliate will be responsible for the development, evaluation or efficacy of any such tax-sensitive strategy. Any such strategy needs to be developed by the client in consultation with a qualified tax adviser. Certain tax-sensitive strategies that PM may pursue involve risks. Among others, tax-efficient management services involve an increased risk of loss because client’s account may not receive the benefit (e.g., realized profit, avoided loss) of securities transactions that would otherwise take place in accordance with the Portfolio Manager’s investment management decisions for the account.

Account Information

CGM provides clients with confirmation of all transactions executed through CGM, account statements at least quarterly and MSSB shall provide periodic Performance Reviews, which are statistical analyses of the account. Clients may elect to waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication. Clients may also receive mutual fund prospectuses, where appropriate.

In the ICM program, a client may request in writing that the ICM Portfolio Manager follow an investment guideline or that certain specified securities not be purchased for his or her account. Also, a client generally may specify that certain categories of securities not be purchased. In this event, MSSB will determine in its sole discretion the specific securities that will be treated as falling within the restricted category. In making this determination, MSSB may rely on outside sources, such as standard industry codes and research furnished by independent service providers.

Fees

Except in certain limited cases as described more fully below, the client pays an asset-based fee to MSSB which covers investment advisory services, custody of securities and trade execution with or through CGM. Transactions in fixed income and certain other securities may involve dealer mark-ups or mark-downs or other charges in addition to the asset-based fees, although generally MSSB will not realize any additional compensation. See “GENERAL

ACCOUNT INFORMATION—Additional Information Regarding Fees and Charges.” The standard annual fees are as follows:

INSTITUTIONAL CASH MANAGEMENT

| Assets | Annual Fee |
|---------------------------|-------------------|
| On the first \$10,000,000 | .25% |
| On the next \$40,000,000 | .20% |
| On the next \$50,000,000 | .15% |
| Assets over \$100,000,000 | .12% |

MSSB shall be entitled to a minimum annual fee of \$25,000 for accounts utilizing the ICM program. Fees are negotiable based upon a number of factors including, but not limited to, the type and size of the account and the range of services provided by the ICM Portfolio Manager. In some instances clients may pay a higher fee than indicated in the fee table above. Fees generally are payable quarterly and in advance. Because this program does not involve investment managers unaffiliated with MSSB, MSSB retains the entire fee.

INVESTMENT MANAGEMENT SERVICES PROGRAM

Under the Investment Management Services (“IMS”) Program, MSSB provides services which may include custody and execution (through CGM as clearing broker) and related services, to clients who retain investment management firms that are not available in Consulting and Evaluation Services or the Fiduciary Services Programs. MSSB provides no advice to clients on such management firms and does not make any representation regarding the competence of the firm, the ability of the firm to perform its duties or the information, including any performance data, provided by the firm. The minimum account size generally is established by the individual investment manager.

Services Provided

Under IMS, selection of an investment management firm is entirely up to the client. MSSB does not evaluate the manager selected by the client and makes no representations as to the quality, performance or suitability of the manager for any client. However, clients should be aware that CG IAR may review investment management firms for inclusion in one or more of its recommended programs, and conclude that the investment management firm has failed to meet the criteria for acceptance into the program(s). In these cases, CG may (but will not necessarily) make this information available to clients.

In IMS, the client enters into an investment advisory contract directly with the investment manager. The services provided by MSSB are limited to one or more of custody and trade execution (through CGM). MSSB does not enter into a contractual relationship with the investment manager. Consequently, MSSB has no ability to terminate an investment manager and will not make recommendations in this regard. The manager is responsible for the implementation of any restrictions placed by the client on the account. There are no restrictions on the client’s ability to contact and consult directly with the investment manager.

Account Information

MSSB provides clients with confirmations of all transactions executed through CGM and with account statements at least quarterly. Clients may elect to waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication. Clients whose assets are in CGM’s custody periodically receive a Performance Review, which is an extensive statistical review and analysis of the account. The Performance Review also is available to clients whose assets are not in CGM’s custody, and a separate fee may be imposed for this service.

Fees

IMS clients pay investment management fees directly to the investment managers. For its provision of services under IMS, the standard annual fee charged by MSSB is 2.50%. Clients may be eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled “***Client Fee Break Points.***”

These fees include custody of securities by CGM (such service is optional), trade execution with or through CGM (as clearing broker for SB) and provision of the Performance Review. Clients bear the cost of commissions or other

transaction charges with respect to securities trades directed by the investment manager to firms other than CGM for execution. Transactions in fixed income and certain other securities may involve dealer mark-ups or mark-downs or other charges in addition to the asset-based fees. To the extent investment managers direct trades in such securities to CGM for execution, MSSB may realize profits or losses in connection with such trades that are separate from or additional to the fees paid by the IMS client, but will not charge the client any mark-up or mark-down. See “GENERAL ACCOUNT INFORMATION—Additional Information Regarding Fees and Charges.” All fees are negotiable based on the size of the account, the services provided and the types of securities traded. This may result in a particular client paying a fee greater or less than the standard fees above. Fees are generally payable quarterly, in advance. Alternatively, MSSB may be compensated on a non-asset-based fee basis solely by collecting commissions or other charges on transactions made for the client’s account. For accounts larger than \$10 million, fees generally are arranged separately on the basis of services provided. As an accommodation to the client, the fees charged by the independent investment manager may be payable through MSSB, which debits the client’s account and remits the advisory fee to the investment manager. MSSB is not responsible for verifying the rate, or computing the manager fees or the value of the account used in this connection.

LEGG MASON PRIVATE PORTFOLIOS

The Program described in this brochure enables SB clients to invest in investment portfolios offered by Legg Mason Private Portfolio Group, LLC (“LMPPG”). The program facilitates the retention, by SB on a client’s behalf, of LMPPG and one or more investment managers that serve as subadvisers to LMPPG (the “Sub-Managers”) for the provision of portfolio management services. LMPPG may delegate some or all of its functions to the Sub-Managers. MSSB, through its Private Portfolio Group division, acts as the “Manager” as described below. The Sub-Managers available for new accounts in the Program currently are the following investment management firms: ClearBridge Advisors, LLC, Western Asset Management Company, Brandywine Global Investment Management, LLC, Global Current Investment Management, LLC and Legg Mason Capital Management, Inc. CG and LMPPG may agree from time to time to make additional Sub-Managers available for new accounts in the Program, including Sub-Managers that are affiliated with LMPPG and Sub-Managers that are not affiliated with LMPPG. Which Sub-Manager(s) are involved in managing a client’s account will depend on the Investment Management Portfolio selected by the client. Information related to MSSB’s role as the Manager is included in the “MSSB’S ROLE AS MANAGER” section below. Information related to LMPPG and to the Sub-Managers that are affiliated with LMPPG is contained in a separate brochure (the “Legg Mason Brochure”), which is available upon request through a client’s Financial Advisor.

LEGG MASON PRIVATE PORTFOLIOS PROGRAM

In the Legg Mason Private Portfolios Program, MSSB, through its Private Portfolio Group division, acts as the Manager (as described below), and retains LMPPG and the Sub-Managers to manage client accounts and CGM (as clearing broker for SB) provides custody, execution and related services either for a single asset-based fee. In its capacity as the Manager, MSSB generally provides portfolio implementation services for equity investments in client accounts. The minimum account size for equity accounts generally is \$50,000 and the minimum account size for fixed income and balanced accounts generally is \$100,000.

Services Provided

In the Legg Mason Private Portfolios Program, MSSB analyzes a client’s investment objectives, acts as the Manager and retains LMPPG and one or more Sub-Managers on the client’s behalf, as described above, to manage assets in accordance with those objectives, by implementing one of various investment management portfolios (the “Investment Management Portfolios”) available. With the assistance of a Financial Advisor, clients can also customize an Investment Management Portfolio. In the Legg Mason Private Portfolios Program, the client enters into an investment advisory agreement with MSSB that provides MSSB with the discretion to act as the Manager, and to retain LMPPG and one or more Sub-Managers on the client’s behalf. MSSB separately contracts with LMPPG, which arranges for the provision of the Sub-Managers’ services. For accounts involving equity investments, the Sub-Managers (or LMPPG) instruct MSSB as the Manager on securities to be bought and sold for Investment Management Portfolios and MSSB manages client accounts in the Program based on these instructions. These services are described in more detail in the separate Legg Mason Brochure and in the section below noted “MSSB’S ROLE AS MANAGER.” For accounts involving fixed income investments, the Sub-Manager (or LMPPG) implements its own investment decisions directly. In addition to single-style Investment Management

Portfolios, LMPPG offers multi-style Investment Management Portfolios, including portfolios that include both equity and fixed income styles.

In most cases, MSSB will obtain the concurrence of the client before selecting an Investment Management Portfolio for the client. Although clients are not prohibited from directly contacting the LMPPG or the Sub-Managers, clients are encouraged to use their Financial Advisors as their primary contacts.

Please see the Legg Mason Brochure for a list of the Investment Management Portfolios that may be available in the Program.

Establishment of Client Objectives

Clients work with their Financial Advisors to establish the investment objectives for each of their accounts. As part of this process, an investment questionnaire and a confidential client information form is completed with respect to the client. These documents are transmitted to CG for analysis.

Evaluation and Selection of the Investment Management Portfolio

MSSB will recommend one or more Investment Management Portfolios to provide portfolio management to client accounts, based on each client's objectives and circumstances. MSSB will recommend only Investment Management Portfolios that it or a consulting firm it has retained has evaluated and reviewed as described below in the section entitled "*Research in Advisory Programs.*" If an Investment Management Portfolio includes any mutual funds, those mutual funds may not have been evaluated or reviewed.

Investment Management Portfolios (but not necessarily any mutual fund in the Investment Management Portfolio) are reviewed and evaluated by CG or a consulting firm before being considered eligible to participate in the Program. LMPPG provides CG or the consulting firm with relevant documentation, which may include sample portfolios, asset allocation histories, its Form ADV (the form required for investment management registration with the Securities and Exchange Commission) and those of any Sub-Managers involved in managing the Investment Management Portfolio, past performance information and marketing literature. For verification purposes, the review process may include a comparison of the Investment Management Portfolio's reported performance with the performance of a cross-section of actual accounts as computed by CG or consulting firm personnel also may interview key LMPPG and Sub-Manager personnel and examine LMPPG and Sub-Manager operations. If it considers it to be appropriate as a result of this evaluation process, CG may deem an Investment Management Portfolio to be "Recommended."

Account Information

CGM confirms all transactions executed through CGM and provides account statements at least quarterly. Clients also receive periodically a Performance Review, which is an extensive statistical review and analysis of the account.

In the Program, a client may request in writing that certain specified securities not be purchased for his or her account. Also, a client generally may specify that certain categories of securities not be purchased. In this event, the applicable Sub-Manager will determine in its sole discretion the specific securities that will be treated as falling within the restricted category. In making this determination, a Sub-Manager may rely on outside sources, such as standard industry codes and research furnished by independent service providers.

Fees

An inclusive fee covers the services described above (including fees of LMPPG and applicable Sub-Managers), as well as custody of securities and trade execution with or through CGM. Clients bear the cost of commissions or other transaction charges with respect to securities trades directed by MSSB in its role as the Manager, or by a Sub-Manager, to firms other than CGM for execution. Transactions in fixed income and certain other securities generally involve payment of mark-ups or mark-downs or other charges to dealers other than CGM in addition to the asset-based fees. See "GENERAL ACCOUNT INFORMATION — Additional Information Regarding Fees and Charges." The standard annual fees are 2.97% for equity, balanced and multi-style portfolios and 2.82% for fixed-income portfolios. Clients may be eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled "**Client Fee Break Points.**" Fees are negotiable based on a number of factors, which may result in a particular client paying a fee greater or less than the standard fees. Fees are generally payable quarterly in advance.

The portion of the asset-based fee paid by MSSB to LMPPG depends upon the asset class, the investment style the total amount of assets allocated to LMPPG in the Program and the assets in a client account. MSSB generally pays LMPPG based on the following table, where the assets in the client account are less than \$5 million at account inception:

| Account Type | Annual LMPPG Fee Range |
|---|------------------------|
| Equity Large Cap/Balanced | 0.35% to 0.30% |
| Multiple Discipline, Multiple Discipline (Custom) | 0.35% to 0.30% |
| Equity Small/Mid/Multi Cap | 0.48% to 0.32% |
| International | 0.40% to 0.35% |
| Fixed Income | 0.35% to 0.23% |

Different fees will be applicable in some circumstances, such as where the assets in the client account are greater than \$5 million at account inception. Also, LMPPG pays a portion of its fee with respect to a client account to each Sub-Manager involved in providing investment management services for such account.

The fees listed herein are subject to change without notice. In the case of equity, balanced and multi-style accounts, MSSB segregates 0.47% of the fee which is charged to clients, or in the case of fixed income accounts 0.32% of the fee, and applies all or a portion of it to the asset-based fee paid to LMPPG. When MSSB's payment to LMPPG is less than the segregated amount (0.47% or 0.32% respectively), MSSB retains a larger portion of the fee charged to clients. Thus, MSSB has an incentive to recommend investment styles for which LMPPG is paid less, because MSSB will retain a higher fee. When MSSB's payment is greater than the segregated amount, MSSB supports the fee to LMPPG and in effect retains a lesser portion of the fee charged to clients. No portion of the segregated amount is paid to Financial Advisors, who therefore have no direct financial incentive to recommend one LMPPG investment style over another. However, Financial Advisors' compensation is directly affected by the size of the client's annual fee., MSSB may be compensated where it (and not LMPPG) provides implementation services, and in that case LMPPG in effect is paid less. Since MSSB pays its fee from the Fee that MSSB receives from the Account, MSSB may have an incentive to recommend an investment style for which MSSB provides implementation services.

PORTFOLIO MANAGEMENT PROGRAM

The Portfolio Management Program ("PM"), a part of the Portfolio Management Group ("PMG"), offers discretionary, individualized management services to clients. The minimum account size is \$25,000.

Services Provided

PM is administered and overseen by MSSB's PMG personnel. PM accounts are managed by selected Financial Advisors ("FA") who have successfully completed an educational program that includes coursework in investment analysis and portfolio management. Under certain circumstances, based primarily upon the FA's prior investment experience, this educational program may be waived by the Program Director of the Portfolio Management Group. Working in his or her local SB branch office, a PM Portfolio Manager assists his or her client in determining investment objectives, and then manages the client's account on a discretionary basis in a manner consistent with those objectives.

In managing client accounts, the PM Portfolio Manager is subject to certain guidelines established by PM relating to economic sector and security diversification, approval of securities, including mutual funds and ETFs, that may be purchased for PM accounts, and asset-mix parameters. Limited types of options transactions (i.e., covered options writing, protective put buying, purchases of puts, calls and LEAPs) may also be conducted.

A PMG Portfolio Manager may agree with a client to implement a client-developed investment strategy that the client believes is sensitive to the client's particular tax situation. Neither PM, MSSB nor any MSSB affiliate provides tax advice, and therefore, they will not be responsible for the development, evaluation or efficacy of any

such tax-sensitive strategy. Any such strategy needs to be developed by the client in consultation with a qualified tax adviser. Certain tax-sensitive strategies that the client may have PM pursue involve risks. Among others, tax-efficient management services involve an increased risk of loss because the client account may not receive the benefit (e.g., realized profit, avoided loss) of securities transactions that would otherwise take place in accordance with the Portfolio Manager's investment management decisions for the account.

Account Information

CGM provides clients with confirmation of all transactions executed through CGM, account statements at least quarterly and MSSB will provide periodic Performance Reviews, which are statistical analyses of the account. Clients may elect to waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication. Clients may also receive mutual fund prospectuses, where appropriate.

In the PM program, a client may request in writing that certain specified securities not be purchased for his or her account. Also, a client generally may specify that certain categories of securities not be purchased. In this event, MSSB will determine in its sole discretion the specific securities that will be treated as falling within the restricted category. In making this determination, MSSB may rely on outside sources, such as standard industry codes and research furnished by independent service providers.

Fees

Except in certain limited cases as described more fully below, the client pays an asset-based fee to MSSB which covers investment advisory services, custody of securities and trade execution with or through CGM. Transactions in fixed income and certain other securities may involve dealer mark-ups or mark-downs or other charges in addition to the asset-based fees, although generally MSSB will not realize any additional compensation. MSSB currently receives a fee of up to 0.12% from all participating mutual funds for non-ERISA assets. A portion of these fees may represent revenue sharing if and to the extent that they exceed what the mutual fund would otherwise have paid for such services. Thus, MSSB has a conflict to recommend mutual funds over individual securities or ETF's. See "GENERAL ACCOUNT INFORMATION—Additional Information Regarding Fees and Charges." The standard annual fee for equity, balanced and fixed income accounts in the program is 3.00% and the minimum account size is \$25,000. Clients maybe eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled "*Client Fee Break Points.*" Fees are negotiable based upon a number of factors including, but not limited to, the type and size of the account and the range of services provided by the PM Portfolio Manager. In some instances clients may pay a higher fee than indicated in the fee table above. Fees generally are payable quarterly and in advance. Because this program does not involve investment managers unaffiliated with MSSB, MSSB retains the entire fee.

In addition, the client will bear a proportionate share of the fees and expenses incurred by any mutual funds in which the client is invested. The prospectus of each of these funds describes these internal fees and expenses in detail. For more information relating to fees please see the section below entitled "Compensation from Funds."

SMITH BARNEY 401(K) ADVISOR PROGRAM®

MSSB makes available to the sponsors of defined contribution retirement plans the Smith Barney 401(k) Advisor Program (the "Program") under which MSSB or its affiliates provide investment advice to participants of the plans (the "Advisory Service"). Through MSSB's Smith Barney channel (hereinafter referred to as "SB") and its Consulting Group ("CG"), CG provides plan participants with individualized recommendations regarding the allocation of their assets among the mutual funds available under the plan.

Fund Selection

MSSB makes available two levels of asset allocation in connection with the Advisory Service. The first level - "core" - includes the following asset allocation categories: large cap domestic funds, small cap domestic funds, international equity funds, fixed income funds, and cash. The next level - "style" - includes the following more narrowly defined asset allocation categories: large cap domestic value funds, large cap domestic growth funds, small cap domestic value funds, small cap domestic growth funds, international equity funds, emerging markets funds, core fixed income funds, international bond funds, specialty funds and money market funds.

MSSB assigns each mutual fund available under the Program (currently over 50 fund families) to the asset allocation category(ies) it deems appropriate based on the securities each fund holds, how closely the fund historically has correlated to its corresponding index, and other characteristics.

MSSB makes these “core” and “style” specific mutual funds available to the plan sponsor as plan investment options. The plan sponsor then chooses a certain number of these funds to include in its platform. The plan sponsor must include in its platform at least one fund for each asset allocation category in its selected level of allocation (i.e., core or style). The plan sponsor has sole responsibility for selecting the funds that it wishes to include in the platform. The plan sponsor may include more than one fund for any particular category (e.g., it may include two large cap value funds). However, for purposes of its asset allocation recommendations to participants, MSSB will recommend for each category a single fund only. The plan sponsor has sole responsibility for selecting the fund it wishes MSSB to recommend in cases where the plan makes more than one fund available for an asset allocation category. The mutual fund that MSSB recommends for each applicable asset allocation category is referred to in this Brochure as the “Sponsor Recommended Fund.” All mutual funds that are available under the Program are referred to herein as the “Funds”.

When Funds are added to the Program (except certain passively managed open-end funds and money market funds), MSSB reviews the Fund’s management, investment process, portfolio structuring techniques, performance history and style-orientation. MSSB selects Funds from those that meet the Opinion or Access Based research as described below in the section entitled “Research in Advisory Programs”. MSSB also applies sub-style categorizations as appropriate to reflect different shades of value, core, growth and international investing. Once MSSB determines the Fund is appropriate for the Program, the Fund is made available. Going forward, MSSB may conduct periodic interviews with Fund representatives and review portfolios of Funds in the major equity asset classes to determine if the Funds remain fit for the assigned asset class. From time to time, if a Fund would be more appropriately categorized in another class category, MSSB may re-categorize the Fund. Certain Funds may not be subject to MSSB interviews or portfolio reviews if they are in the fixed income or specialty asset classes, or if the Funds do not make the management and/or portfolio information available. In addition, existing Funds in the Program may not meet the same criteria applied to new Funds added to the Program. MSSB does not render an opinion or recommendation on any Fund in the Program. However, in the course of its ongoing review of Funds available in the Program, MSSB may discover information about a Fund which would cause it to reconsider its decision to make such Fund available in the Program. In particular, issues related to personnel and management turnover, organizational issues, investment process issues, compliance-related issues, and asset level factors may cause MSSB to decide to terminate the Fund’s availability in the Program. In this event, MSSB will notify plans who are holders of shares in the affected Fund of its intention to terminate its participation in the Program, together with suitable alternatives in advance of the anticipated termination date.

Finally, it is important to note that at all times, it is within MSSB’s sole discretion to allow, deny, maintain or terminate a Fund’s availability in the Program, based on the criteria set forth above.

Participant Recommendations

The PIP Questionnaire. Each eligible plan participant may complete a questionnaire, which requests information on the participant’s then current age, salary, years to retirement, risk tolerance and certain other information.

The Participant Investment Planner. MSSB will provide each participant that completes a questionnaire with a participant investment planner report (“PIP”). The PIP will contain, among other things, MSSB’s advice, based on the information contained in the questionnaire, as to an appropriate allocation (the “MSSB Recommended Allocation”) of the plan assets attributable to that participant among the Sponsor Recommended Funds.

If a participant’s risk profile or any other circumstances relevant to the MSSB Recommended Allocation changes, the participant may complete a new PIP questionnaire, in which event MSSB will issue a new MSSB Recommended Allocation, appropriate for the participant’s changed circumstances.

The Participant Quarterly Statement. ING Institutional Plan Services LLC (“ING Institutional Plan Services”), on behalf of MSSB, will furnish each participant with a quarterly statement of the performance of the Funds in which the participant is invested. The quarterly statement also will contain the then current MSSB Recommended Allocation for a participant (provided the participant has completed a PIP Questionnaire) and the participant’s actual

allocation among the Funds. MSSB also may include in the quarterly statement changes to the recommendation previously made to the participant if MSSB determines that doing so is warranted by changes in market or other conditions that have taken place since the issuance of the last recommendation. MSSB will furnish quarterly statements to a participant for as long as the plan sponsor continues to engage ING Institutional Plan Services to provide plan services and MSSB to offer the Advisory Service.

Transactions in the Funds; Automatic Reoptimization and Rebalancing

A participant may accept the MSSB Recommended Allocation or modify any part thereof. (As used in this Brochure, the allocation selected by a participant will be his/her “Benchmark Allocation.”) If a participant selects the MSSB Recommended Allocation, the MSSB Recommended Allocation and the Benchmark Allocation would be the same.) Except in the case of Automatic Reoptimization (described below), the Advisory Service is nondiscretionary. As a result, to implement investment recommendations made by MSSB under the Advisory Service, participants must contact ING Institutional Plan Services (or its designated agent) in its capacity as plan recordkeeper.

ING Institutional Plan Services will effect transactions in the Funds as directed by participants, and make available to participants the option of having their plan investment accounts adjusted to compensate for asset allocation changes or market fluctuation. Participants may select one or both of the following options:

(i) Automatic Reoptimization (available only for Participants who have selected the Automatic Reoptimization feature and are using the MSSB Recommended Allocation as their Benchmark Allocation) If a participant selects this option, when MSSB recommends an asset allocation change, the participant’s account will be automatically reallocated by ING Institutional Plan Services to substantially match the recommended change (the participant’s future contribution election will also be adjusted to match the change) as soon as administratively feasible. This reallocation will be accomplished by automatically exchanging a dollar-equivalent number of shares of each Fund to be reduced for the corresponding number of shares of each Fund to be increased until the actual allocation substantially matches MSSB’s Recommended Allocation.

(ii) Annual Account Rebalance (available only for Participants who have selected the Automatic Account Rebalance feature). If a participant selects this option, ING Institutional Plan Services will rebalance his or her account each year on the last day of the anniversary month of the participant’s first contribution in the plan (after such time as ING Institutional Plan Services has been engaged by the plan sponsor) to substantially maintain the participant’s most recently selected Benchmark Allocation. This rebalancing will be accomplished by automatically exchanging a dollar-equivalent number of shares of each Fund to be reduced for the corresponding number of shares of each Fund to be increased until the actual allocation substantially matches the participant’s most recently selected Benchmark Allocation.

Client Advisory Fee & Fees Received from Funds

The maximum annual MSSB advisory fee payable by a plan or participant for the Advisory Service is generally 1.5% of the plan assets invested in the Funds (the “Advisory Fee”). The annual Advisory Fee is payable quarterly, in arrears. Each plan will pay separate recordkeeping and administration fees to ING Institutional Plan Services (the “ING Fee”) and ING Institutional Plan Services will also receive fees from mutual funds for certain services rendered by ING Institutional Plan Services. The fees received from the Funds and/or their sponsors, investment advisers or other service providers at annual rates currently ranging from 0.10% to 0.35%, based on the average daily net asset value of plan assets invested in the Funds, these fees maybe in the form of shareholder servicing and other fees (which may be in the form of 12b-1 fees) (“Servicing Fees”). A plan will be subject to the Advisory Fee commencing on the date that ING Institutional Plan Services commences providing recordkeeping services with respect to such plan notwithstanding the fact that participants may be unable to implement investment recommendations made by MSSB under the Advisory Service for some period of time due to restrictions imposed by ING Institutional Plan Services and the plan sponsor to facilitate an orderly transfer of plan records to ING Institutional Plan Services. The fee rate is negotiable depending on, among other things, the size and complexity of the plan, the number of participants, the number of Funds offered by the plan, and the scope of services being provided by MSSB.

In addition to the Advisory Fee, a plan (and its participants) will bear a proportionate share of the fees and expenses incurred by the Funds in which the plan (and its participants) are invested. The prospectus of each of the Funds

describes these fees and expenses in detail.

A plan sponsor generally may terminate the Advisory Service upon 45 days written notice to MSSB and ING Institutional Plan Services.

The services which ING Institutional Plan Services (and/or an affiliate) provides for these fees may include, among other things, (i) receiving instructions (“Instructions”) from a plan for the purchase, exchange and redemption of Fund shares and communicating such instructions on behalf of the plan to the Funds; (ii) maintaining records of Instructions and outstanding Fund share balances on behalf of a plan and furnishing the plan sponsor with periodic transaction reports; (iii) providing a plan sponsor with copies of Fund prospectuses and other Fund materials; (iv) assisting the Funds with the solicitation of proxies; (v) providing the Funds with certain information regarding a plan client; (vi) responding to inquiries of a plan sponsor regarding, among other things, share prices, account balances, dividend amounts and dividend payment dates; (vii) with respect to a plan’s ownership of, or transactions with respect to, any Fund, preparing information and reports regarding dividends and other distributions made, other distributions and payments, and gross proceeds of sale transactions; and other matters.

For clients who have entered into an advisory agreement prior to January 1, 2009, MSSB will continue to pay a portion of MSSB’s Advisory Fee, currently 0.10%, to ING Institutional Plan Services. In addition to the ING Fee portion of the Advisory Fee, ING Institutional Plan Services (and/or an affiliate) receives Servicing Fees on all advisory assets (as described above) currently ranging from 0.10% to 0.35%, based on the average daily net asset value of plan assets invested in the Funds. In the event ING Institutional Plan Services receives a Servicing Fee greater than an annualized rate of 0.25%, ING Institutional Plan Services will reduce client’s ING Fee portion of the Advisory Fee by such amount over 0.25%. However, if the Servicing Fee is less than an annualized rate of 0.25%, ING Institutional Plan Services will increase the client’s ING Fee portion of the Advisory Fee by the difference between 0.25% and the Fund Servicing Fee. Thus, the ING Fee (and, therefore, the plan’s aggregate Advisory Fee), may be reduced or increased as a result of the aggregate amount of Servicing Fees received by ING Institutional Plan Services with respect to plan assets invested in the Funds during the quarter. Consequently, the reduction or increase to the quarterly ING Fee portion of the Advisory Fee payable by a plan will vary based on the specific Funds in which the plan’s assets are invested during the quarter.

In all cases, while the ING fee portion of the Advisory Fee (and, therefore, the plan client’s aggregate Advisory Fee) may be reduced or increased as described above, MSSB’s portion of the Advisory Fee remains constant. Thus, MSSB always retains an amount equal to the negotiated Advisory Fee rate set out in the client agreement with MSSB, less 0.10%.

Participant Recommendations

The PIP Questionnaire. Each eligible plan participant may complete a questionnaire, which requests information on the participant’s then current age, salary, years to retirement, risk tolerance and certain other information.

The Participant Investment Planner. MSSB will provide each participant that completes a questionnaire with a participant investment planner report (“PIP”). The PIP will contain, among other things, MSSB’s advice, based on the information contained in the questionnaire, as to an appropriate allocation (the “MSSB Recommended Allocation”) of the plan assets attributable to that participant among the Sponsor Recommended Funds.

If a participant’s risk profile or any other circumstances relevant to the MSSB Recommended Allocation changes, the participant may complete a new PIP questionnaire, in which event MSSB will issue a new MSSB Recommended Allocation, appropriate for the participant’s changed circumstances.

From time to time MSSB may determine that, as a result of changed market or other conditions, it is appropriate to revise Recommendations previously made to Participants. If MSSB has an arrangement with a Plan’s record keeper (the “Record keeper”) pursuant to which MSSB allows the Record keeper access to certain information maintained by MSSB (or its agents) regarding Recommendations made to the Plan’s Participants (an “Information Sharing Arrangement”), MSSB will communicate the revised Recommendations to the Record keeper, who will then have sole responsibility for communicating them to Participants. In cases where an Information Sharing Arrangement does not exist, MSSB will make available to Participants that have completed a questionnaire a revised Recommendation via an internet web site.

Fees

In connection with its decision to invest Plan assets in the Funds, a Plan will agree to pay FSTC, an annual fee (the “Fee”) for Standard Collective Fund Account Services. These services, which include the Service, are further described in certain new account materials the Plan completes. The annual Fee payable by a Plan will depend on the level of services provided by FSTC, MSSB, and the Financial Advisor servicing the Plan, but generally will not exceed 1.55% of the Plan assets invested in the Funds. The annual Fee generally is payable quarterly, in arrears and includes FSTC’s fee for acting as custodian and/or trustee. If a Plan terminates its participation in the Funds in the middle of a quarterly payment period, a fee will be charged from the beginning of the quarter through the termination date. A plan will be subject to the Fee commencing on the date that MSSB begins providing the Service to the Plan.

Additional Information

A Plan or MSSB generally may terminate the Service at any time by giving thirty days’ written notice.

MSSB and Financial Advisors also may provide other services in connection with the Service. Any such services will be specified in the investment advisory agreement, or other agreement between MSSB and the Plan client. In addition, MSSB and affiliated companies are compensated for providing services to the Funds as trustee and otherwise.

SMITH BARNEY ADVISOR

Smith Barney Advisor is an investment advisory program designed to assist a client in devising and implementing a reasoned, systematic, long-term investment strategy tailored to the client’s financial circumstances. Smith Barney Advisor assists clients in evaluating their investment objectives and risk tolerances and enables them to invest in a broad array of Eligible Assets (as defined below). Smith Barney Advisor is a non-discretionary investment program in which all investment decisions are made by the client, other than the investment of free credit balances and the conversion of mutual fund shares to shares of a different share class as discussed below. Neither MSSB nor any affiliated entity has any investment discretion over a client’s Smith Barney Advisor account (the “Account”). The Smith Barney Advisor Program consists of the following elements:

- **The Investment Proposal.** MSSB shall assist with the review and evaluation of a client’s investment objectives. In order to develop a client’s overall suitability, MSSB shall review and evaluate a client’s financial goals and risk tolerances based on an investment questionnaire (the “Investment Questionnaire”) that the Financial Advisor completes with the assistance of the client, to reflect the client’s situation. In reviewing client’s suitability, MSSB may consider assets that are not contained in the Account (“Outside Assets”), as well as any Unsupervised Assets (as defined below) that client has designated for analysis. Based on the Investment Questionnaire, MSSB shall prepare an investment proposal (the “Proposal”) containing investment concepts that are consistent with the client’s investment objectives. The Proposal provides specific advice about implementing investment decisions through Eligible Assets (as defined below), which cover a spectrum of investments. Available mutual funds may be purchased by the client without the imposition of any initial or contingent deferred sales charges if the fund is a Supervised Asset, as defined below (but will remain subject to the internal expenses described in each Fund prospectus’ expense table). The mutual funds may impose short-term redemption fees, client should refer to the Fund’s prospectus for additional information regarding these fees.

Based on the Proposal, MSSB shall also perform an asset allocation analysis. In the event the client notifies MSSB of a change in the client’s investment suitability and objectives contained in the Investment Questionnaire or Proposal, MSSB will generate a revised Proposal, and if necessary, suggest rebalancing of the Account’s asset allocation in accordance with the updated information.

- **Investment Services.** MSSB shall periodically provide the client with investment advice, which may include recommendations regarding investing in Supervised Assets in a manner consistent with the client’s investment objectives; and pursuant to the client’s consent, which shall be obtained prior to each transaction, in order to accept transactions in the Account.

As used in this brochure, “**Eligible Assets**” consist of assets held in a Smith Barney Advisor Account that are: (a) domestic equity and certain other securities (other than securities of Morgan Stanley and Citi (“MS & Citi Securities”)), including, but not limited to, common stock, convertible preferred stock, convertible bonds, shares of closed-end investment companies that may or may not be sponsored or advised by MSSB or its affiliates, American Depository Receipts, and any rights or warrants on equity securities; (b) certain foreign equity securities; (c) options on domestic equity securities or indices; (d) load-waived shares or shares not offered with a load of certain open-end investment companies that may or may not be sponsored or advised by MSSB or its affiliates, as specified from time to time by MSSB; (e) load carrying shares of certain open-end investment companies, as specified from time to time by MSSB, that have been purchased on a load basis outside of the Smith Barney Advisor Account (such no-load and load investment companies collectively referred to as “Funds”); (f) certain exchange traded funds (“ETFs”) and fee-based unit investment trusts; (g) certain fixed-income securities (including, but not limited to, U.S. Treasury and federal agency securities, corporate bonds, municipal bonds, preferred stock, and mortgage-backed securities) as specified from time to time by MSSB and certificates of deposit (for non-retirement clients); or (h) cash and cash equivalents (e.g., money market funds and certain short-term fixed income securities) (“Cash Equivalents”).

As used in this brochure, “**Ineligible Assets**” include, but are not limited to: MS & Citi Securities, insurance, annuities, limited partnership interests or units, precious metals or other commodities or futures thereon, options on futures, currency options, foreign currency, commercial paper, certificates of deposit (for retirement clients), bankers acceptances, and certain unit investment trusts, investment company shares and fixed income securities that are not Eligible Assets, as described above.

As used in this brochure, “**Supervised Assets**” consists of all cash and Cash Equivalents, as well as all other assets in the Account that are not Unsupervised Assets. “Unsupervised Assets” means all Ineligible Assets (as defined below), as well as any Eligible Assets that (i) are not cash or Cash Equivalents, (ii) client requests be included in Unsupervised Assets and (iii) MSSB accepts as Unsupervised Assets. Notwithstanding anything to the contrary in this brochure, MSSB shall not provide any investment advisory or other services contemplated by this brochure with respect to Unsupervised Assets. Unsupervised Assets will not be included in the calculation of the Fee (as defined below).

MSSB will not provide advice with respect to Outside Assets or with respect to Unsupervised Assets.

MSSB may add or delete classes of securities or assets from the definition of Eligible Assets and Ineligible Assets from time to time, and upon notice to the client. In addition, without notice to the client, MSSB may treat any Fund or other asset that is in client’s Account as an “Eligible Asset”, in which case such Fund or other asset shall become an Eligible Asset. In addition, without notice to client, MSSB may convert any Fund in an Account that is an Ineligible Asset to a share class of the same Fund that is an Eligible Asset. The Fund that is an Eligible Asset will become a Supervised Asset as defined in this brochure.

If a particular Fund or other asset held in client’s Account becomes an Eligible Asset, such Fund or other asset will become a Supervised Asset and MSSB will include the Fund or other asset in the Periodic Review (as defined below) and in the Account asset value for purposes of calculating the client’s Smith Barney Advisor fee, and shall provide the other services specified in the investment advisory agreement with respect to that Fund or other asset. If a Fund or other asset becomes an Eligible Asset during a billing period, the Account may be subject to a pro-rata fee based on the number of days remaining in the billing period. Accordingly, any asset in a Smith Barney Advisor Account may be or become subject to the Smith Barney Advisor fee.

At least 2,200 Funds are available to Smith Barney Advisor clients. In determining whether a family of Funds should be available to clients, MSSB generally reviews and considers a number of factors, including but not limited to the number and variety of funds offered; length of track record and historic appeal to MSSB clients and Financial Advisors; short- and long-term performance of the funds offered; size of assets under management; ability to support Financial Advisors and clients through training, education and sales literature; and level of interest and demand among clients and Financial Advisors. Of the Funds available to Smith Barney Advisor clients, certain funds are covered under the Opinion Research or Access Research as described in the “Research in Advisory Programs” section set forth below.

MSSB and its Financial Advisors may also provide other services in connection with the Smith Barney Advisor Program. Any such services will be specified in the Investment Advisory Agreement between MSSB and the client.

Smith Barney Advisor is an ongoing investment advisory service. Once an Account is active, the client receives a periodic review (the “Periodic Review”) highlighting Account performance. The Periodic Review is a monitoring report containing an analysis and evaluation of the Smith Barney Advisor Account, provided to assist the client in ascertaining whether the objectives for the Smith Barney Advisor Account are being met and recommending, when appropriate, changes in the allocation of assets among investment types. In addition to the Periodic Review, the client receives account statements in any month in which there is activity and, in any event, quarterly. Client will also receive confirmations of all transactions.

Smith Barney Advisor Fees

The annual fee for participation in the Smith Barney Advisor Program is 2.00%. Clients maybe eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled “***Client Fee Break Points.***” MSSB currently receives a fee of up to 0.12% from all participating mutual funds for non-ERISA assets. A portion of these fees may represent revenue sharing if and to the extent that they exceed what the mutual fund would otherwise have paid for such services. Thus, MSSB has a conflict to recommend mutual funds over individual securities or ETF’s. To be eligible for participation in the Smith Barney Advisor Program, the client must have a minimum of \$25,000 in Eligible Assets in Smith Barney investment advisory accounts of members of the same household as client. In the event this requirement is not satisfied at any time, MSSB may, in its discretion, terminate this investment advisory agreement and remove the Account from the Smith Barney Advisor Program.

The annual fee may be subject to negotiation. The annual fee and minimum amounts may differ based on a number of factors, including, but not limited to, the amount of Smith Barney Advisor assets and the number and range of supplemental advisory and client related services to be provided by MSSB and the Financial Advisor responsible for the Smith Barney Advisor assets. Fees are generally paid quarterly, in advance. In addition to the Smith Barney Advisor fee, the client will bear a proportionate share of the fees and expenses incurred by the Funds in which the client is invested. The prospectus of each of these Funds describes these internal fees and expenses in detail. For more information relating to fees, please see the sections entitled “*Additional Information Regarding Fees and Charges*” and “*Compensation from Funds*” in the “*GENERAL ACCOUNT INFORMATION*” section below.

The Smith Barney Advisor Program is available only on the basis of an asset-based fee paid to MSSB. This fee covers the services described above, as well as custody of securities and trade execution on Supervised Assets with or through CGM.

Any fee which a trust company affiliated with MSSB charges for its services (if applicable) as custodian and trustee for the Smith Barney Advisor assets, pursuant to a separate agreement between the client and the trust company, will be charged separately.

Interest will be charged to a client's account should the account show a debit balance. The “net equity” value of the Supervised Assets in the Account shall be utilized for the purpose of calculating the Fee.

A client may terminate participation in the Smith Barney Advisor Program at any time by giving written notice to MSSB. MSSB may (but is not obligated to) accept an oral notice of termination from client in lieu of the written notice. If participation in the Smith Barney Advisor Program is terminated, any advisory fees paid in advance will be refunded on a pro-rata basis.

Principal Transactions

For non-retirement clients, CGM may execute trades with respect to transactions executed for a client (e.g., selling a security to, or purchasing a security from the client) while acting as principal for its own account. In addition to the Smith Barney Advisor fee charged by MSSB, MSSB may also benefit from the transaction by receiving a mark-up or mark-down, underwriting fee or selling concession, as well as other incentives to execute transactions directly from CGM’s inventory. This will result in CGM realizing customary dealer profits or losses on the trades, and as a result, may present a potential conflict of interest. Any profit or loss on principal trades would be separate from or

additional to, and would not reduce or otherwise offset, compensation received by MSSB under the Smith Barney Advisor Program. Prior to execution of a principal transaction, MSSB will obtain client's consent to said transaction including all material terms thereof as required by law.

SMITH BARNEY COLLECTIVE FUNDS ASSET ALLOCATION SERVICE

The Smith Barney Collective Funds Asset Allocation Service is available to defined contribution employee benefit plans ("Plans") and their participants ("Participants") that are investing (or intend to invest) plan assets in the First State Trust Company Collective Trust Funds (the "Funds").

The Smith Barney Collective Funds Asset Allocation Service is provided by CG and offered jointly through First State Trust Company ("FSTC") and MSSB. Under the Service, a Plan that is investing (or intends to invest) Plan assets in the Funds may engage MSSB to provide its Participants with recommendations on the allocation of their Plan assets among certain of the Funds available under the Plan. To participate in the Service, a Plan must select for its investment platform one of the groups of Funds designated by MSSB as an "Asset Allocation Group." The Service is not available if a Plan offers investment options to its Participants in Funds that are not part of an Asset Allocation Group.¹

The Funds are sub-advised by recognized institutional investment management firms. FSTC's Investment Committee selects each sub-advisor taking into consideration Consulting Group's research and evaluation process. This process includes an examination of the firms' investment process, portfolio management team, business structure and performance, among other criteria. Each sub-advisor is regularly monitored and reviewed to ensure it continues to maintain the level of investment quality for which it was initially hired.

STRATEGIC PORTFOLIOS

Services Provided²

The different types of investment management portfolios described below are managed by MSSB without the involvement of any Sub-Managers.

Strategic 10 Portfolios

The Strategic 10 Portfolios seek as their primary investment objective long-term capital appreciation. The portfolios are individually managed based on the implementation of the Dow Dividend Strategy. The Strategy uses a disciplined approach to identify and maintain a select portfolio of stocks from the 30 components of the Dow Jones Industrial Average ("DJIA"). The Strategy uses dividend yield as the primary criterion for portfolio selection. Individual accounts are invested on a weekly basis, purchasing the ten highest-yielding DJIA stocks at the time of inception. Accounts are generally restructured and rebalanced approximately one year from inception. There may be some circumstances when the investment manager will deviate from the discipline and make adjustments to the portfolios. MSSB generally imposes an investment minimum of \$50,000 for new accounts investing in the Strategic 10 Portfolios. MSSB, in its sole discretion, may waive any one or more of these minimums for any one or more accounts.

Fees

Clients invested in Strategic Portfolios pay MSSB an annual fee of 0.30% of assets invested. Clients maybe eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled "***Client Fee Break Points.***"

¹ The Asset Allocation Groups do not include any of the Funds that are considered by SB to be balanced funds (the "Balanced Funds"). A Plan may make one or more of the Balanced Funds available to its Participants and still participate in the Service. However, SB will not take into account any Balanced Fund offered by the Plan when providing asset allocation recommendations to Participants.

² Applicable law or regulation may prohibit MSSB from purchasing, the stock of Morgan Stanley or Citi or securities where MSSB affiliates are performing investment banking services, for portfolios if such stock were to meet the selection criteria of the applicable Strategy described below. In such event, MSSB may substitute one or more other stocks (for example, the 11th highest yielding stock in the DJIA for the Strategic 10 Portfolios) for the stock(s) that it is unable to purchase and/or increase the weightings of the remaining stocks that fit the Strategy's selection criteria.

TRAK CGCM

TRAK CGCM is an investment advisory program offered by MSSB's CG, designed to assist a client in devising and implementing a reasoned, systematic, long-term investment strategy tailored to the client's financial circumstances. TRAK CGCM links the CG's experience in evaluating an investor's investment objectives and risk tolerances and the abilities of investment advisers to meet those objectives and risk tolerances with the convenience and cost effectiveness of a broad array of mutual fund investment portfolios. TRAK CGCM consists of the following elements:

- **The Request.** The core of TRAK CGCM is CG's evaluation of the client's financial goals and risk tolerances based on a confidential client questionnaire (the "Request") that the client completes with the assistance of a Financial Advisor. If the client is a participant directed employee retirement plan ("Participant-Directed Plan") qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "IRC"), and if the Participant-Directed Plan has selected the service, participants in the plan ("Plan Participants") complete the Request. In this case, CG evaluates the financial goals and risk tolerances of the Plan Participants. If the client's financial situation and individual needs change, the client may complete a new Request, in which event CG will issue a new Recommendation, appropriate for the client's changed circumstances.
- **The Recommendation.** Based on its evaluation of the client's or Plan Participant's financial goals and circumstances, CG prepares and issues a recommendation (the "Recommendation") to the client. In the Recommendation, CG provides advice as to an appropriate mix of investment types designed to balance the client's or Plan Participant's financial goals against his or her means and risk tolerances as part of a long-term investment strategy. The Recommendation provides specific advice about implementing investment decisions through Consulting Group Capital Markets Funds (the "Trust"), a series of mutual fund investment portfolios (the "Portfolios") that covers a spectrum of investments. If the client is an employee retirement plan qualified under Section 401(a) of the IRC, which utilizes a trust company as trustee or custodian, the Recommendation may include purchasing shares of Stable Value Investments (the "Stable Value Trust"), a collective trust fund. MSSB is compensated for providing services to the Trust and the Portfolios as investment manager, administrator and otherwise. The Recommendation specifies a combination of investments in the Portfolios and/or the Stable Value Trust considered suitable for the client or Plan Participant.
- **The Investment Monitor.** TRAK CGCM is an ongoing investment advisory service. Once an account is active, the client receives a periodic review (the "Investment Monitor") highlighting all account activity. The Investment Monitor is a monitoring report containing an analysis and evaluation of the TRAK CGCM account to ascertain whether the objectives for the TRAK CGCM account are being met and recommending, when appropriate, changes in the allocation of assets among investment types.

In addition to the Investment Monitor, the client receives confirmations of all transactions and account statements in any month in which there is activity or, in any event, quarterly.

The CGCM Funds are sub-advised by recognized institutional investment management firms. CG selects each sub-advisor from Opinion or Access managers, as described in the section titled *Research in Advisory Programs*, or based on a research and evaluation process that includes an examination of the firms' investment processes, portfolio management teams, business structures and performances, among other criteria. Each sub-advisor is regularly monitored and reviewed to ensure it continues to maintain the level of investment quality for which it was initially hired. CG also reviews CGCM Funds to ensure a minimal overlap of investments among Funds and that the Funds do not stray from their stated investment mandate.

In the TRAK CGCM program, neither MSSB nor any affiliated entity has any investment discretion over the client's account. The client or Plan Participant makes all investment decisions, except as with regard to the auto-reallocate feature.

MSSB and Financial Advisors may also provide other services in connection with TRAK CGCM. Any such services will be specified in the Investment Advisory Agreement between MSSB and the client.

TRAK CGCM Fees

The annual fee for participation in TRAK CGCM is 2.00% and the fee is payable quarterly. The quarterly fee shall be based on the fair market value of TRAK CGCM assets on the last day of the previous quarter, and shall become due on the tenth business day of the second month of the then current calendar quarter. Clients maybe eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled “**Client Fee Break Points.**”

The annual fee for Participant Directed Plans depends on the level of services provided by CG and the Financial Advisor, but will not exceed 1.5%.

The minimum initial amount of TRAK CGCM assets is \$10,000. The minimum initial amount of TRAK CGCM assets for Plan TRAK CGCM programs is \$10,000. A “Plan” means an individual retirement account, a retirement plan for self-employed individuals, or an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended. The annual fee and minimum initial amounts may be subject to negotiation. The annual fee and minimum initial amounts may differ based on a number of factors, including, but not limited to, the amount of TRAK CGCM assets and the number and range of supplemental advisory and client related services to be provided by MSSB and the Financial Advisor responsible for the TRAK CGCM assets.

The quarterly TRAK fee for a client which is a Plan will be reduced by an amount equal to, for all Portfolios in which Plan Assets are invested: (A) the daily value of Plan Assets invested in a Portfolio, multiplied by (B) the reduction factor specified below, multiplied by (C) a fraction, the numerator of which is 1 and the denominator of which is 365, the product of which will then be accumulated daily for the entire Calendar quarter (the “ERISA Leveling Credit”). Client’s quarterly TRAK fee will be reduced by the amount of the ERISA Leveling Credit in the calendar quarter following the accumulation of such ERISA Leveling Credit.

The reduction factor for Money Market Investments shall be 0%; for all other Portfolios, the reduction factor will be equal to the fee that CG retains for managing each of the Portfolios less the maximum fund management fee that CG may retain under the exemption (the lower of 20 basis points or the lowest fee retained by CG from the Portfolios on any given day).

The fee described above covers only the services described above. The fee which the trust company charges for its services (if applicable), as custodian and trustee for the TRAK CGCM assets, is pursuant to a separate agreement between the client and the trust company.

As a shareholder in the Portfolios or the Stable Value Trust, the client will also bear a proportionate share of the Portfolios’ or the Stable Value Trust’s fees and expenses. The Portfolios’ fees and expenses are described in detail in the prospectus(es) for the Trust.

Interest will be charged to a client’s account should the account show a debit balance. Any debit balance will not be deducted from the account balance for the purpose of the calculation of the TRAK CGCM fee.

TRAK NAV

TRAK NAV is an investment advisory program offered by MSSB’s Consulting Group (“Consulting Group” or “CG”), designed to assist a client in devising and implementing a reasoned, systematic, long-term investment strategy tailored to the client’s financial circumstances. TRAK NAV links CG’s experience in evaluating an investor’s investment objectives and risk tolerances and the abilities of investment advisers to meet those objectives and risk tolerances with the convenience and cost effectiveness of a broad array of mutual funds. TRAK NAV consists of the following elements:

- **The Request.** The core of TRAK NAV is CG’s evaluation of the client’s financial goals and risk tolerances based on a confidential client questionnaire (the “Request”) that the client completes with the assistance of a Financial Advisor. If the client’s financial situation and individual needs change, the client may complete a new Request, in which event CG will issue a new Recommendation, appropriate for the client’s changed circumstances.

- **The Recommendation.** Based on its evaluation of the client’s financial goals and circumstances, CG prepares and issues a recommendation (the “Recommendation”) to the client. In the Recommendation, CG provides advice as to the appropriate mix of investment types designed to balance the client’s financial goals against his or her means and risk tolerances as part of a long-term investment strategy. The Recommendation provides specific advice about implementing investment decisions through mutual funds (the “Fund” or collectively, “Funds”) offered by a variety of fund families which cover a spectrum of investments. The Funds may be purchased by the client without the imposition of any initial or contingent deferred sales charges. The Recommendation specifies a combination of Funds considered suitable for the client.
- **The Investment Monitor.** TRAK NAV is an ongoing investment advisory service. Once an account is active, the client receives a periodic review (the “Investment Monitor”) highlighting all account activity. The Investment Monitor is a monitoring report containing an analysis and evaluation of the TRAK NAV account to ascertain whether the objectives for the TRAK NAV account are being met and recommending, when appropriate, changes in the allocation of assets among investment types.

In addition to the Investment Monitor, the client receives confirmations of all transactions and account statements in any month in which there is activity or, in any event, quarterly.

When Funds are added to TRAK NAV, CG reviews the Fund’s management, investment process, portfolio structuring techniques, performance history and style-orientation as described below in the “*Research in Advisory Programs*” section. CG also applies sub-style categorizations as appropriate to reflect different shades of value, core, growth and international investing. Once CG determines the Fund is appropriate for TRAK NAV, the Fund is made available. Going forward, CG may conduct periodic interviews with Fund representatives and reviews portfolios of Funds in the major equity asset classes to determine if the Funds remain fit for the assigned asset class. From time to time, if a Fund would be more appropriately categorized in another class category, CG may re-categorize the Fund. Certain Funds may not be subject to CG interviews or portfolio reviews if they are in the fixed income or specialty asset classes or if the Funds do not make the management and/or portfolio information available. In addition, existing Funds in TRAK NAV may not meet the same criteria applied to new Funds added to the program.

However, in the course of its ongoing review of Funds available in the TRAK NAV program, Consulting Group Investment Advisor Research (“CG IAR”) may discover information about a Fund, which would cause it to reconsider its decision to make such Fund available in the Program. In particular, issues related to personnel and management turnover; organizational issues; investment process issues; compliance-related issues; and asset level factors may cause CG IAR to decide to terminate the Fund’s availability in the Program. Finally, it is important to note that at all times, it is within CG’s sole observation to allow, deny, maintain or terminate a Fund’s availability in the TRAK NAV program, as further described in the “*Research in Advisory Programs*” below.

In the TRAK NAV program, neither MSSB nor any affiliated entity has any investment discretion over the client’s account. The client makes all investment decisions, except as with regard to the auto-reallocate feature.

MSSB and Financial Advisors may also provide other services in connection with TRAK NAV. Any such services will be specified in the Investment Advisory Agreement between MSSB and the client.

As a result of MSSB’s receipt of shareholder servicing and other mutual fund fees (“Servicing Fees”), the aggregate fees received by MSSB may vary depending on the Funds in which the client invests, unless the client is a Plan.³ Consequently CG may be presented with a conflict of interest when determining the Recommendation for the client (unless the client is a Plan). MSSB is subject to, and intends to comply with, standards of fiduciary duty that require it to act in the best interest of the client when providing the client with investment advice.

³ In the case of Plan Clients, MSSB offsets the Fund Fees it receives against the TRAK NAV fees due from Plan Clients in the manner described in this Brochure under the heading “TRAK NAV Fees - Plan Client Fees.”

The annual rates of Servicing Fees that MSSB receives from the Funds and/or their sponsors, investment advisers or other service providers with respect to non-Plan client assets invested in these Funds through the TRAK NAV program are as follows:

| <u>Annual Servicing Fee Rates</u> | |
|---|---|
| <u>Funds and Fund Families⁴</u> | <u>for Non-Plan Client Assets⁵</u> |
| ABNM AMRO Funds | 0.35% |
| Absolute Investment Advisors | 0.35% |
| AIM/Invesco Funds | 0.30% |
| Alger Funds | 0.30% |
| AllianceBernstein Funds | 0.15% |
| Alternative Investment Partners | 0.35% |
| American Century Tax-Free Bond Fund | 0.20% |
| All other American Century Funds | 0.25% |
| American Funds | 0.35% |
| Ariel Funds | 0.35% |
| Artisan Funds | 0.35% |
| Artio Funds | 0.35% |
| Aston Funds | 0.35% |
| Baird Funds | 0.35% |
| <u>Annual Servicing Fee Rates (cont'd.)</u> | |
| <u>Funds and Fund Families</u> | <u>for Non-Plan Client Assets</u> |
| Baron Funds | 0.30% |
| BlackRock Funds | 0.35% |
| Brandywine Funds | 0.15% |
| Calamos Funds | 0.25% |
| Cambiar Funds | 0.35% |
| Causeway Funds | 0.35% |
| Cohen & Steers Funds | 0.25% |
| Columbia Funds | 0.25% |
| CRM Funds | 0.35% |
| Cullen Funds | 0.35% |
| Davis Funds | 0.25% |
| Delaware Funds | 0.35% |
| Dreyfus S&P 500 Index Fund | 0.10% |
| Dreyfus U.S. Treasury Long-Term Fund | 0.15% |
| All Other Dreyfus/Founders Funds | 0.30% |
| DWS Funds | 0.30% |
| Eaton Vance Funds | 0.35% |
| Federated Prudent Bear Funds | 0.35% |
| Forward Hoover Funds | 0.35% |
| Franklin Funds | 0.35% |
| GAMCO/Gabelli Funds | 0.25% |
| Goldman, Sachs Funds | 0.35% |
| Harbor Funds | 0.35% |

⁴ Here a Fund Family (e.g., American Funds) is shown, this means that at least one Fund (but not necessarily all funds) from that Fund Family is available through the TRAK NAV program.

⁵ Annual Servicing Fee rates shown for non-Plan assets are a percentage of non-Plan assets invested in the Fund(s) through the TRAK NAV program. For further detail on these fees, see your TRAK NAV Investment Advisory Agreement.

| | |
|--|-------|
| Harding Loevner | 0.35% |
| Hartford Funds | 0.35% |
| Henderson Funds | 0.35% |
| Hotchkis & Wiley Funds..... | 0.35% |
| ING Funds..... | 0.35% |
| Ivy Funds Distributor | 0.35% |
| Janus Funds | 0.25% |
| Janus Adviser Funds | 0.35% |
| Jensen Funds | 0.35% |
| JP Morgan Funds | 0.25% |
| LAUDUS Rosenberg Funds..... | 0.25% |
| Lazard Funds..... | 0.35% |
| Legg Mason Partners Funds..... | 0.35% |
| Loomis Sayles Funds | 0.25% |
| Lord Abbett Funds | 0.35% |
| Mainstay Funds | 0.35% |
| Managers Funds | 0.35% |
| Manning and Napier Funds | 0.35% |
| Merger Fund..... | 0.35% |
| Metropolitan West Asset Management Funds | 0.35% |
| MFS Funds..... | 0.35% |
| Midas Fund | 0.35% |
| Mosaic Funds | 0.35% |
| Neuberger Berman Funds | 0.25% |
| Northern Trust Investments..... | 0.35% |
| Nuveen Funds | 0.35% |
| Oakmark Funds | 0.30% |
| Old Mutual | 0.35% |
| OppenheimerFunds Inc. | 0.35% |

Annual Servicing Fee Rates (cont'd.)

| <u>Funds and Fund Families</u> | <u>for Non-Plan Client Assets</u> |
|--|--|
| Philadelphia International Fund | 0.30% |
| PIMCO Equity Funds | 0.35% |
| PIMCO Fixed Income Funds | 0.25% |
| Principal Funds | 0.35% |
| Prudential Funds | 0.35% |
| Royce Funds..... | 0.35% |
| RS Funds | 0.35% |
| Schroder Funds | 0.35% |
| Skyline Funds..... | 0.35% |
| Virtus Funds..... | 0.35% |
| SSgA Funds | 0.35% |
| T. Rowe Price Funds..... | 0.25% |
| Tamarack Funds..... | 0.35% |
| TCW Funds | 0.35% |
| Thornburg Intermediate Municipal Fund | 0.15% |
| All other Thornburg Funds..... | 0.35% |
| Turner Funds..... | 0.35% |
| Wasatch Funds | 0.35% |
| Wells Fargo Advantage Funds | 0.35% |
| Western Asset Funds..... | 0.35% |
| Western Asset Money Funds Cash Portfolio | 0.19% |
| Western Asset Money Funds Government Portfolio | 0.22% |

| | |
|---------------------------------|-------|
| All other Legg Mason Funds..... | 0.25% |
| William Blair Funds..... | 0.35% |

New Funds may be added or removed periodically to the Program. The new Funds will pay MSSB Servicing Fees in the range described above.

TRAK NAV FEES

Non-Plan Client Fees

The annual fee for participation in TRAK NAV is 2.00% and the fee (unless the client is a Plan⁶) is payable quarterly. The quarterly fee is due on the tenth business day of the third month in each calendar quarter and is based on the fair market value of the client's TRAK NAV assets on the last day of the previous quarter. In addition to the TRAK NAV fee, the client will bear a proportionate share of the fees and expenses incurred by the Funds in which the client is invested. The prospectus of each of these Funds describes the fees and expenses. Clients maybe eligible for a discount from the standard fee if they have assets that meet specific break points. Please see the section below entitled "Client Fee Break Points."

Plan Client Fees

If the client is a Plan, the annual fee for participation in TRAK NAV is the sum of (i) the amount determined in accordance with the above schedule (the "Variable Rate Payment") and (ii) the amount equal to the average daily net asset value of the client's Fund investments multiplied by the annualized rate of 0.25% (the "Fixed Rate Payment"). The Variable Rate Payment is payable quarterly on the tenth business day of the third month in each calendar quarter and is based on the fair market value of the client's Fund investments on the last day of the previous quarter. The Fixed Rate Payment is due on the last calendar day of each calendar quarter. However, MSSB may defer receipt of the Fixed Rate Payment for any quarter until the tenth business day of the third month of the following quarter. On that day (the "Payment Date"), MSSB will credit the aggregate amount of Servicing Fees attributable to the client's Fund investments for the previous quarter against the Fixed Rate Payment payable by the client for the previous quarter. To the extent that the aggregate amount of Servicing Fees attributable to the client's investments for the previous quarter exceeds the amount of the Fixed Rate Payment payable by the client for such quarter, the excess amount will be credited against the client's Variable Rate Payment for the then current quarter. To the extent the amount of the Fixed Rate Payment payable by the client for the previous quarter exceeds the aggregate amount of Servicing Fees attributable to the client's Fund investments for such quarter, the excess amount will be due and payable by the client on the Payment Date.

The Servicing Fees payable to MSSB by each Fund will vary. Consequently, the credit to the Plan Client's quarterly TRAK NAV fee payments, as described in the foregoing paragraph, may vary based on the specific Funds in which the client's assets are invested during the quarter. Except as otherwise disclosed to the client, the credit for any quarter will be an amount equal to the product of: (i) the average daily net asset value of the client's assets invested in each Fund during the quarter; (ii) the number of days in the quarter for which the TRAK NAV fee is being assessed with respect to the client's investment in that Fund; and (iii) a fraction, the numerator of which is (A) 0.10%, in the case of investments in the Dreyfus S&P 500 Index Fund, (B) 0.15%, in the case of investments in the Dreyfus US Treasury Long-Term Fund, (C) 0.15%, in the case of investments in the Brandywine Fund, (D) 0.20%, in the case of investments in the American Century Tax-Free Bond Fund, and (E) 0.25%, in the case of investments in each other Fund and the denominator of which is 365.

Fees Received From The Funds

MSSB receives shareholder Servicing Fees from the Funds and/or their sponsors, investment advisers or other service providers at annual rates ranging from 0.10% to 0.35% of the amount of the client's assets invested in the Funds (no more than 0.25% with respect to Plan assets).

⁶ For purposes of this Brochure, a Plan means (i) an individual retirement account, (ii) a retirement plan for self-employed individuals and (iii) an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended.

Additional TRAK NAV Fee Information

The minimum initial investment in a TRAK NAV account is \$10,000. The annual fee and minimum initial amounts may be subject to negotiation. The annual fee and minimum initial amounts may differ based on a number of factors, including, but not limited to, the amount of TRAK NAV assets and the number and range of supplemental advisory and client related services to be provided by MSSB and the Financial Advisor responsible for the TRAK NAV assets.

The fees described above cover only the services described above. Any fee which a trust company which may or may not be affiliated with MSSB charges for its services (if applicable) as custodian and trustee for the TRAK NAV assets pursuant to a separate agreement between the client and the trust company will be charged separately.

Interest will be charged to a client's account should the account show a debit balance. Any debit balance will not be deducted from the account balance for the purpose of the calculation of the TRAK NAV fee.

A client or MSSB may terminate participation in TRAK NAV at any time, by giving five days notice. If participation in TRAK NAV is terminated, any advisory fees paid in advance will be refunded on a pro-rata basis.

SERVICES PROVIDED BY MSSB AND CGM

MSSB is responsible for:

- Approving, opening, and monitoring client account(s), including obtaining, verifying, and retaining the client's account information and documents, accepting the client's account(s), and monitoring trading and other activity in the client's account(s).
- Providing investment advice to investment advisory clients of MSSB.
- Determining whether any investment advice or recommendation given to a client by the client's Financial Advisor is suitable for the client, and whether persons placing instructions for a client's account are authorized to do so. CGM will not give a client advice about the client's investments in the client's MSSB account(s) and will not evaluate the suitability of investments made by a client, the client's Financial Advisor, or any other party for the client's MSSB accounts.
- Accepting orders and other instructions from a client regarding the client's account, and promptly and accurately transmitting those orders and instructions to CGM. CGM will not accept orders or instructions directly from a client. MSSB may send orders for the purchase or sale of securities on a client's behalf to CGM for execution, or MSSB may execute the transaction and instruct CGM to post the transaction to a client's account.
- Operating in compliance with all applicable laws, rules and regulations relating to its own operations and securities activities, the supervision of its Financial Advisors and other personnel, and the supervision of transactions and other activity in a client's account.
- Initially receiving funds and securities for a client's account(s), in accordance with a client's instructions, for prompt transfer to CGM.
- Offering margin accounts to MSSB customers and setting margin requirements for MSSB accounts consistent with any requirements established by CGM. MSSB is responsible for informing a client of credit requirements of a client's account(s) and how to comply with them. MSSB will regularly receive from CGM information on the status of margin accounts and notice of changes in CGM house rules. Client and MSSB are responsible for ensuring that any extension of credit for which a client may apply or accept is suitable or appropriate for a client, that a client's margin account(s) are at all times funded in compliance with Regulation T of the Federal Reserve Board, the rules of the New York Stock Exchange, Inc., and other applicable self-regulatory organizations and the house rules of CGM.

- Investigating and responding to any questions or complaints a client have about a client's account(s), confirmations, a client's periodic account statements, or any other matter related to a client's account(s). MSSB will notify CGM with respect to matters involving services performed by CGM.
- Maintaining the required books and records with respect to the functions it performs.

CGM is responsible for:

- Executing, clearing, and settling securities transactions.
- Preparing and sending to each client periodic statements of the client's account(s) as well as confirmations of the transactions in the client's account(s). Certain of the information on the client's statements, such as prices and descriptions of securities are obtained from third parties. For more specific pricing information, and prior to placing orders, CGM suggests that the client contact MSSB. In some cases, MSSB may instruct CGM to post transaction or other information to client's account(s). CGM does not independently verify such information. CGM provides to MSSB copies of each confirmation and account statement sent to a client.
- Custody (or safekeeping) of funds and securities delivered to CGM on a client's behalf or received by CGM in connection with transactions in a client's account(s). CGM is responsible for the handling of funds and securities which it holds or receives on a client's behalf in accordance with the instructions given by MSSB.
- Receiving and delivering funds and securities for a client's account(s) in accordance with MSSB instructions. CGM is not responsible for any funds or securities which are not actually delivered to it, or for any funds withdrawn from a client's account(s) by MSSB or its employees.
- Extending credit to a client in connection with buying or maintaining securities in a client's account(s). CGM will not determine whether any extension of credit for which a client applies or accepts is suitable or appropriate for a client. As described above, the client and MSSB are responsible for ensuring that the client's credit account(s) is at all times funded in compliance with Regulation T of the Federal Reserve Board, the rules of the New York Stock Exchange, Inc., and other applicable self-regulatory organizations and the house rules of CGM. These rules are exclusively for the protection of CGM, and to the extent permitted by law, CGM will not be liable to a client for any failure by CGM to comply with these rules. CGM has the right to take market action in a client's account(s) if it does not meet the credit requirements.
- Maintaining the required books and records with respect to the functions it performs.

MSSB'S ROLE AS OVERLAY MANAGER

MSSB generally performs its role as Overlay Manager through its MSSB Private Portfolio Group division. MSSB provides certain overlay services to the following MSSB advisory programs: LMPP, FS Legg Mason, FS and CG Select UMA.

Implementation and Coordination Services Provided

As Overlay Manager, MSSB provides the following portfolio implementation and coordination services (as applicable) with respect to client accounts invested in: LMPP, FS Legg Mason, FS and CG Select UMA programs:

- i. implementing investment instructions furnished to MSSB by Sub-Managers concerning the securities to be purchased, held, or sold for client accounts, and determining the amount of securities to be purchased or sold for client accounts, in accordance with rules and procedures agreed to by MSSB and the Sub-Managers;

- ii. placing orders for and arranging for the purchase or sale of securities with broker-dealers to implement the investment instructions of the Sub-Managers and/or communicating the amount of securities to be purchased or sold for client accounts to the Sub-Managers for execution with broker-dealers selected by the Sub-Managers;
- iii. placing orders for the purchase, sale, or redemption of shares of mutual funds and exchange-traded funds to implement the investment instructions of clients and/or Sub-Managers (applicable for portfolios and programs involving investment in such funds);
- iv. rebalancing client accounts among two or more investment styles (applicable for accounts with multiple investment styles represented);
- v. coordinating a client account's non-fund holdings (applicable for accounts with multiple non-fund investment styles represented) in consultation with the applicable Sub-Managers;
- vi. implementing reasonable restrictions imposed by a client on the management of the non-fund holdings portion of such client's account; and
- vii. managing client accounts consistent with asset allocation and non-registered fund, registered investment company or asset class selections made by clients.

MSSB is directed by the applicable Sub-Manager's instructions as to the securities to purchase and sell for client accounts, except as otherwise noted in the description of a specific program. Periodically, MSSB will re-balance the account back to the desired asset allocation.

In coordinating a client account's non-fund holdings, MSSB may, in some Programs and in consultation with the applicable Sub-Managers, eliminate or reduce portfolio overlap resulting from a particular security being recommended by more than one Sub-Manager. In some Programs, MSSB will also monitor an individual security's position size within a client's account based on parameters set by the applicable Sub-Manager and, in consultation with the Sub-Manager, reduce such position size should a security's position reach certain levels.

Types of Investments, Methods of Analysis, Sources of Information and Investment Strategies

As noted above, MSSB purchases and sells securities on the basis of investment instructions furnished by Sub-Managers to MSSB for implementation. In addition, in some Programs for balanced accounts and Multiple Discipline Accounts, MSSB follows the instructions of the sub-managers in determining the timing and extent of rebalancing among multiple investment styles. Subject to the foregoing, MSSB's investment strategies may involve long-term or short-term trading, short sales, margin transactions and option writing, and generally may extend to: exchange-listed, over-the-counter and foreign securities and rights and warrants to acquire the same; corporate, municipal, foreign and U.S. government debt securities, including those guaranteed by such governments or issued by their agencies and instrumentalities and repurchase and reverse repurchase agreements including any of the foregoing; securities options; mortgage-backed or other asset-backed securities and structured notes; certificates of deposit; certain derivative instruments; commercial paper; bankers acceptances; and mutual fund shares. Not all of these strategies are appropriate for all clients, however, and only those strategies believed to be suitable will be utilized in any given client account or advisory program. It is anticipated that there may be a substantial degree of uniformity in client portfolios of the same investment style as a result of the common investment objectives of the clients who have selected that style.

MSSB may also invest client assets in ETFs. These funds are typically unmanaged and typically represent U.S. securities markets, industry and market capitalization sectors, non-U.S. country and regional markets, and other types of non-U.S. securities markets and market sectors (e.g., emerging markets). To the extent an ETF represents securities of non-U.S. issuers, it will involve the additional non-U.S. investment risks. Investments in securities of non-U.S. companies involve certain risks in addition to those risks ordinarily associated with investing in securities of domestic issuers. These additional risks include the potentially negative effects of fluctuations in foreign currency exchange rates, future political and economic developments, foreign taxation and differences in auditing and other financial standards. In addition to the wrap or management fees charged at the account level, a client will

bear a proportionate share of the fees and expenses incurred by any ETF in which a portion of such client's account is invested.

MSSB's investment management services, other than implementation of Sub-Manager investment instructions, generally rely on fundamental analysis with supplemental technical analysis which may include charting or cyclical review. Computer technology may be employed to more readily display these factors to portfolio managers. Information is derived from many sources, which may include: proprietary research; financial publications (including newspapers and magazines), industrial manuals and publications; company visits; inspections of corporate activities; direct contact with and press releases and other reports released by companies; annual reports, prospectuses and filings made with the Securities and Exchange Commission; research materials prepared by other firms; governmental reports; timing services; and corporate rating services.

Error Policy

MSSB maintains an Error Policy aimed at ensuring the prompt and proper detection, reporting and correction of errors involving the accounts of MSSB clients. The requirements of the Error Policy apply to the extent that MSSB has control of resolving errors for client accounts. The correction method used by MSSB for an error must put the client in the same position the client would have been in had the error not occurred (i.e., the client must be made whole for any error-related losses and costs suffered). Any gain resulting from an error generally will be left in the client's account or, if realized outside the client's account, offered by MSSB directly to the client. Only if the client refuses to accept such a gain may MSSB retain the profit. MSSB will not offer or give error-related gains to any person or firm other than the applicable client. In the case of a trade error discovered before settlement, MSSB may seek to have the broker cancel the erroneous trade, even if the erroneous trade has resulted in a gain. Alternatively, an erroneous trade may be moved to an MSSB error account prior to settlement, and MSSB may realize a profit or loss on the security.

Certain Tax Considerations

As Overlay Manager, MSSB may agree with a client to implement a client-developed investment strategy that the client believes is sensitive to the client's particular tax situation. Neither MSSB nor any MSSB affiliate provides tax advice, and will not be responsible for the development, evaluation or efficacy of any such strategy. Any such strategy needs to be developed by the client in consultation with a qualified tax adviser. In addition, in managing client accounts, MSSB, in conjunction with the applicable Sub-Manager, may, but is not under any obligation to, on its own initiative seek to implement investment strategies in a tax-sensitive manner. In such event, MSSB, in conjunction with the applicable Sub-Manager, will seek to mitigate the tax consequences associated with management of the client's MSSB account; but MSSB, in conjunction with the applicable sub-adviser, will not consider the client's particular tax situation or the client's non-account assets and transactions unless MSSB, in conjunction with the applicable sub-adviser, specifically agrees to do so for the client. Certain tax-sensitive strategies that MSSB, in conjunction with the applicable Sub-Manager, may pursue on its own initiative involve risks. For instance, MSSB, in conjunction with the applicable Sub-Manager, may add to a position in a security held at a loss with the intention of selling all or a portion of the original position to realize a loss upon the expiration of the applicable "wash sale" period. The client will incur additional losses in the event of a further fall in the price of the security before the original position can be sold. MSSB, in conjunction with the applicable Sub-Manager, also may engage in "merger swaps" by selling the security of an acquiring company held in client portfolios to realize a tax loss and simultaneously purchasing the security of the company to be acquired to maintain general exposure to the acquiring company. The client may incur losses in the event that a planned merger is terminated and the price of the company to be acquired falls in value. Certain tax-sensitive strategies that MSSB, in conjunction with the applicable Sub-Manager, may pursue (e.g., selling high-cost basis lots of a security when selling a portion of an account's holdings in such security) may mitigate current taxes but potentially lead to greater taxes in future years. Also, certain tax-sensitive strategies may subject the client or the client's tax advisor to certain federal and/or state tax shelter disclosure, registration and/or other requirements.

GENERAL ACCOUNT INFORMATION

Client Information

In the above advisory programs, a Financial Advisor may ask the client to fill out a questionnaire and a confidential client information form that may request information from the client concerning the client's financial situation and investment objectives. Clients may update or change information at any time by contacting their Financial Advisor. For the advisory programs that are managed by a non-affiliated investment manager, MSSB then sends this information to the investment manager selected to manage the account. Any changed information will be transmitted promptly to the investment manager selected to manage the client's account.

For the PM, GPM and ETF programs, the portfolio manager collects similar information regarding the client and keeps current on material changes when notified by the client.

As part of the Investment Management Services Program, the client will not necessarily be asked by MSSB to fill out an investment questionnaire or confidential client information form, nor will a Financial Advisor periodically inquire into whether any changes in the client's financial circumstances have occurred.

Client Fee Break Points

Clients may be eligible for fee discounts, at the break points listed below, from the standard program fees listed for each specific program. For further information regarding the break points and applicable discounts please contact your Financial Adviser.

| | |
|--------------|-------------|
| On the first | \$249,999 |
| On the next | \$250,000 |
| On the next | \$500,000 |
| On the next | \$1,000,000 |
| On the next | \$3,000,000 |
| Over | \$4,999,999 |

Education

Generally, a college degree or securities industry experience is required, other than clerical or administrative services, for CG personnel providing investment advisory or consulting services, to clients. A complete listing of each principal executive officer of MSSB, CG as well as personnel having managerial or supervisory responsibility with regard to the investment management and consulting services described in this brochure can be found in the "BIOGRAPHICAL INFORMATION" section below.

Account Review and Supervision

Generally accounts are monitored on an on-going basis by the portfolio manager or Financial Advisors and are subject to branch supervision. The portfolio manager's review of discretionary accounts includes a review of each purchase or sale, as well as monthly position reports.

Assignment of Portfolio Managers

In the PM, GPM, GIS and ETF Programs, client accounts are assigned by MSSB to a portfolio manager based upon various factors, including, but not limited to, the portfolio manager's investment experience in relation to the client's individual investment needs and the program selected by the client. In the Fiduciary Services, LMPP, CES, IMS, and CG Select Programs, the portfolio manager is assigned by the investment management firm. In the FS Legg Mason Program, an account's portfolio managers are assigned by the Manager and applicable Sub-Managers.

Research in Advisory Programs

As noted in the specific programs described in this brochure, Consulting Group Investment Advisor Research ("CG IAR") (or a third party retained by MSSB) uses two methods to evaluate investment managers, mutual funds and other types of products, such as ETFs ("Program Investment Products"), in its various advisory programs: Opinion Research and Access Research. In general, Opinion Research entails a more rigorous and thorough evaluation of a Program Investment Product than Access Research and fewer investment options will qualify for approval under Opinion Research standard than Access Research. Program Investment Products that are approved meeting the Opinion Research standard may be described as being on CG IAR's Focus List. Program Investment Products that are approved meeting the Access Research standard may be described as being on CG IAR's Approved List.

Certain Program Investment Products approved under either process may also be recommended based in part on tactical opportunities existing at a given time (a “Tactical Opportunities List”). It is important to note that not all Program Investment Products available in the advisory programs were approved or evaluated under Opinion or Access Research. The specific advisory programs that limit Program Investment Products only to those that have been approved meeting the Opinion or Access Research standard are described in this brochure and any separate brochure for those programs.

Opinion Research

In the more in-depth Opinion Research process, each Program Investment Product’s manager or sponsor provides CG IAR with relevant documentation on the Program Investment Product(s) being evaluated, which may include sample portfolios, asset allocation histories, its Form ADV (the form required for investment management registration with the Securities and Exchange Commission), past performance information and marketing literature. For verification purposes, the review process may include a comparison of the Program Investment Product’s reported performance with the performance of a cross-section of actual accounts as computed by CG IAR. CG IAR personnel also may interview the investment manager and its key personnel and examine its operations. Program Investment Products that are approved under the Opinion Research process may be described as being on CG IAR’s Focus List.

The appropriateness of the continued retention of a Program Investment Product as meeting the criteria for Opinion Research is reviewed on a periodic basis. In conducting these reviews, CG IAR considers a broad range of factors including investment performance, staffing, operational issues and financial condition. Among other things, CG IAR personnel interview each investment manager periodically to discuss these matters. For Program Investment Products with whom CG IAR is familiar through repeated reviews, CG IAR has increasingly emphasized quantitative analysis and interviews in other venues instead of in person meetings. In addition, CG IAR may review the collective performance of a composite of the Consulting Group accounts being managed by a particular investment manager and compare this information to overall performance data quoted by the manager and investigate any material deviations.

Access Research

The less comprehensive “Access Research” process evaluates various qualitative and quantitative factors of Program Investment Products under consideration for Access Research. Among the factors which may be considered in determining whether a particular investment option will be “Approved” under Access Research include personnel depth, turnover and experience; investment process; business and organization characteristics; and investment past performance. In order to assist in their evaluation, the CG IAR team may utilize an algorithm – a rules-based scoring mechanism – that reviews various qualitative and quantitative factors and ranks each investment option contained in a third-party database. Not all Program Investment Products reviewed under Access Research will utilize the algorithm. When a Program Investment Product is processed by the algorithm, analysts analyze the information contained in the algorithm to gauge the completeness and consistency of the data which drive the rankings, and then follow-up with the Program Investment Product’s manager or sponsor with additional information requests. The ultimate result of this research effort is a conclusion by CG IAR that the Program Investment Product either meets the Access Research standard (product receives a status of “Approved”) or does not. Program Investment Products that are approved under the Access Research process may be described as being on CG IAR’s Approved List. Program Investment Products that meet the Access Research standard also are reviewed periodically by CG IAR to evaluate whether they continue to meet CG IAR’s standard to be listed as “Approved”. However, data and information provided by Program Investment Products in connection with the review process are not independently verified by CG IAR or Consulting Group.

In light of the differing research methodology and standards under Opinion and Access Research, CG IAR may determine that a Program Investment Product no longer meets the criteria for Opinion research, or will no longer be reviewed under the criteria for Opinion research, but in either case does meet the criteria for Access Research, in which case MSSB will generally notify the Clients regarding such status changes on a quarterly basis. In addition, CG IAR may determine that a Program Investment Product no longer meets the criteria under either research process and therefore in the future, the investment option will no longer be recommended in MSSB’s advisory programs (a “Manager Downgrade” or “Fund Downgrade”) and the client will generally be notified of such Downgrade. The manner of notification will vary, depending on the MSSB advisory program.

Watch Policy

CG IAR has a “Watch” policy for covered Program Investment Products. Watch status indicates that, in the course of its review of a given Program Investment Product, CG IAR has identified specific areas of the investment manager's business that (a) merit further evaluation by CG IAR; and (b) may, but is not certain to, result in a Manager Downgrade in the future. Putting a Program Investment Product on Watch does not signify an actual change in CG IAR opinion nor is it a guarantee that a downgrade will necessarily occur. The duration of a Watch status will vary according to the length of time necessary for CG IAR to conduct its evaluation and for the Program Investment Product's firm to address any areas of concern identified by CG IAR. For additional information, clients should ask their Financial Advisor for a copy of the Consulting Group Investment Advisor Research's Watch Policy.

Mutual Funds in Advisory Programs

Certain mutual 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 allow clients to purchase mutual fund shares. Some mutual funds will 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 will be converted into the share class that is required by the fund company for that type of account. Depending on the circumstances, clients may be converted into a share class that has a lower or a higher operating expense.

Client authorizes MSSB (without notice to Client) to convert any open end mutual fund, including any Legg Mason Capital Management mutual fund (each a “Fund”) in an account to a share class of the same Fund which is a load-waived or no-load share class such as an Institutional (“I”) share, Financial Intermediary (“FI”) share, or advisory program share.

Upon termination of the account for any reason or the transfer of Fund shares out of the account into a MSSB retail account, client hereby authorizes MSSB to convert any I share(s) FI share(s) and/or advisory share class of any Fund, including any Legg Mason Capital Management mutual fund, to the corresponding Fund's primary or appropriate non-advisory share classes. Client acknowledges that the primary or appropriate non-advisory share class generally has higher operating expenses than the corresponding FI, I and advisory share classes, which may negatively impact investment performance.

Risk Considerations When Investing in ETFs

Investors should consider the following risks when investing in ETFs. There may be a lack of liquidity in certain ETFs which can lead to wide bid-ask spreads. 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 share price and the 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. Please feel free to discuss these considerations with your Financial Advisor.

Money Market Funds

An investment in a money market fund is neither insured nor guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, there can be no assurance that will occur, and it is possible to lose money should the fund value per share fall. 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 would be 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. The money market funds available for non-retirement clients are managed by an affiliate of MSSB, thus, MSSB has a conflict of interest in recommending money market funds.

Limitations on Transactions with Citi, Morgan Stanley, their Affiliates and Related Parties

MSSB is affiliated not only with Citi and its affiliates, but also with Morgan Stanley and its affiliates. This results in additional or broader restrictions relating to the execution of client transactions as follows:

- Both Citi and Morgan Stanley will generally not act as principal in executing trades for advisory clients of MSSB (except to the extent permitted by the terms of the respective programs and applicable law).
- Certain regulatory requirements may limit the ability of MSSB to execute transactions through alternative execution services (e.g., electronic communication networks and crossing networks) owned by either Citi, Morgan Stanley or their respective affiliates.

These restrictions may adversely impact client account performance.

These restrictions may not apply, however, to orders received from unaffiliated investment management firms providing portfolio management services to clients in the Consulting and Evaluation Services, Investment Management Services and Institutional Services programs and in certain other advisory programs in which MSSB does not provide portfolio management services.

Commissions for Execution Through Morgan Stanley Broker-Dealers

In certain advisory programs currently provided by Smith Barney and/or CGM, the program fees include brokerage transactions executed by CGM. Following the closing of the Transaction, when those advisory programs are provided by the SB Channel of MSSB, the program fees for those programs will continue to include execution services provided by CGM. Clients in those programs, however, may pay commissions (in addition to any advisory program fees) for brokerage transactions that are executed by Morgan Stanley or broker-dealers unaffiliated with CGM.

Proxy Voting

When investing in the FS, FS Legg Mason, LMPP, CG Select UMA, CES and IMS programs, clients generally have the option to elect to have the Investment Manager (or in the FS (if MSSB is the Overlay Manager), LMPP and CG Select UMA programs the Overlay Manager) vote proxies on the client's behalf. If a client elects this option, the Investment Manager will vote proxies related to all securities held in the managed account, including the discretionary assets invested by the Investment Manager and any non-managed assets held in the managed account.

When investing in Smith Barney's FS, CG Select UMA, PM, GPM, GIS and ETF programs, clients have the option to delegate all proxy voting rights to MSSB and authorize MSSB to further delegate all proxy voting rights to Institutional Shareholder Services ("ISS") or another proxy voting service (the "Proxy Voting Service") satisfactory to MSSB.

If a client elects this option in the CG Select UMA program the Overlay Manager will follow all recommendations of the Proxy Voting Service. In these programs, if the Proxy Voting Service does not have a recommendation for any proxy vote, the client directs the Overlay Manager to vote all proxies in proportion to the votes of the other holders of the security for which the proxy vote is requested.

If a client elects this option in the PM, GPM, GIS or ETF programs, MSSB or its designee will vote proxies related to all securities held in the managed account, including the discretionary assets invested by the Financial Advisor and any non-managed assets held in the account. Clients may elect to have MSSB or its designee vote proxies on behalf of their PM, GPM, GIS or ETF account by marking the appropriate box on the PM/GPM/GIS/ETF Client Agreement, or by contacting their Portfolio Manager in writing at any time. In providing this service, MSSB or its designee will vote proxies in accordance with applicable fiduciary obligations and written proxy voting policies and procedures. These proxy voting policies and procedures (i) contain general guidelines that MSSB or its designee will follow to ensure that they vote proxies in a manner consistent with the best interests of clients, and (ii) are designed to ensure that material conflicts of interest are avoided and/or resolved in a manner that is consistent with MSSB's fiduciary role. A copy of these policies and procedures is available from client's Financial Advisor, upon request.

Clients may obtain information regarding how MSSB or its designee voted a specific proxy on behalf of the client's account by submitting a written request to their Financial Advisor.

In all programs that permit it, non-managed assets are held in client accounts as an accommodation and are not charged an investment management fee nor included for performance reporting purposes. The Investment Manager or MSSB does not have investment discretion with respect to the purchase, sale or holding of non-managed assets. However, all proxies for the non-managed assets are voted in accordance with the same proxy voting policies and procedures followed by the Investment Manager or MSSB with respect to securities over which the Investment Manager or MSSB exercises investment discretion.

If a client no longer wishes to have the Investment Manager, MSSB, its designee or the Overlay Manager vote proxies for the discretionary assets in the managed account, the client may cancel the proxy waiver election immediately by contacting the Financial Advisor; in which case, the Investment Manager, MSSB, its designee or the Overlay Manager will no longer be in a position to vote proxies for any securities in the client's managed account, including securities over which the Investment Manager or Portfolio Manager has investment discretion. In this case, all such proxies will be delivered directly to the client for consideration. If a client no longer wishes to have the Investment Manager, MSSB, its designee or the Overlay Manager vote proxies for the non-managed assets in the managed account, but would like the Investment Manager, MSSB, its designee or the Overlay Manager to continue voting the proxies for the discretionary assets in the managed account, the client should contact the Financial Advisor and arrange to transfer the non-managed assets to another non-managed account.

Proxy Voting for Accounts Invested in Strategic Portfolios

In connection with managing the Strategic Portfolios, MSSB votes proxies for securities held in Strategic Portfolios accounts for which it has been authorized or is required by law to vote proxies. In voting such proxies, MSSB is guided by general fiduciary principles and seeks to act prudently and solely in the best interest of the beneficial owners of the accounts it manages. MSSB attempts to consider all factors that could affect the value of the investment and will vote proxies in the manner that it believes will be consistent with efforts to maximize shareholder values. MSSB may utilize an external service provider or a Legg Mason Inc. affiliate to provide it with information and/or recommendations with regard to proxy votes for securities held in Strategic Portfolios accounts. However, such recommendations do not relieve MSSB of its responsibility for the proxy vote for such accounts for which it has proxy-voting authority.

In the case of a proxy issue for which there is a stated position in the policies, MSSB generally votes in accordance with such stated position. In the case of a proxy issue for which there is a list of factors set forth in the policies that MSSB considers in voting on such issue, MSSB votes on a case-by-case basis in accordance with the general principles set forth above. Issues for which there is a stated position set forth in the policies or for which there is a list of factors set forth in the policies that MSSB considers in voting on such issues fall into a variety of categories, including election of directors, ratification of auditors, proxy and tender offer defenses, capital structure issues, executive and director compensation, mergers and corporate restructuring, and social and environmental issues. The stated position on an issue set forth in the policies can always be superseded, subject to the duty to act solely in the best interest of the beneficial owners of accounts, by the investment management professionals responsible for the account whose shares are being voted. There may be occasions when different portfolio managers vote differently on the same issue. In addition, in the case of Taft-Hartley clients, MSSB will comply with a client direction to vote proxies in accordance with Institutional Shareholder Services' (ISS) PVS Voting guidelines, which ISS represents to be fully consistent with AFL-CIO guidelines.

In furtherance of MSSB's goal to vote proxies in the best interest of clients, MSSB follows procedures designed to identify and address material conflicts that may arise between MSSB's interests and those of its clients before voting proxies on behalf of such clients. To seek to identify conflicts of interest, MSSB periodically notifies MSSB employees in writing that they are under an obligation: (i) to be aware of the potential for conflicts of interest on the part of MSSB with respect to voting proxies on behalf of client accounts, both as a result of their personal relationships and due to special circumstances that may arise during the conduct of MSSB's business; and (ii) to bring conflicts of interest of which they become aware to the attention of MSSB's compliance personnel. MSSB also maintains and considers a list of significant MSSB relationships that could present a conflict of interest for

MSSB in voting proxies. MSSB is also sensitive to the fact that a significant, publicized relationship between an issuer and a non-MSSB affiliate might appear to the public to influence the manner in which MSSB decides to vote a proxy with respect to such issuer. Absent special circumstances or a significant, publicized non-MSSB affiliate relationship that MSSB for prudential reasons treats as a potential conflict of interest because such relationship might appear to the public to influence the manner in which MSSB decides to vote a proxy, MSSB generally takes the position that non-MSSB relationships between an affiliate and an issuer do not present a conflict of interest for MSSB in voting proxies with respect to such issuer. Such position is based on the fact that MSSB is operated as an independent business unit from other Morgan Stanley and Citi business units, as well as on the existence of information barriers between MSSB and certain other Morgan Stanley and Citi business units.

A proxy issue that will be voted in accordance with a stated MSSB position on such issue, or in accordance with the recommendation of an independent third party, is not brought to the attention of the Proxy Voting Committee for a conflict of interest review because MSSB's position is that, to the extent a conflict of interest issue exists, it is resolved by voting in accordance with a pre-determined policy or in accordance with the recommendation of an independent third party. With respect to a conflict of interest brought to its attention, the Proxy Voting Committee first determines whether such conflict of interest is material. A conflict of interest is considered material to the extent that it is determined that such conflict is likely to influence, or appear to influence, MSSB's decision-making in voting proxies. If it is determined by the Proxy Voting Committee that a conflict of interest is not material, MSSB may vote proxies notwithstanding the existence of the conflict.

If it is determined by the Proxy Voting Committee that a conflict of interest is material, the Proxy Voting Committee is responsible for determining an appropriate method to resolve such conflict of interest before the proxy affected by the conflict of interest is voted. Such determination is based on the particular facts and circumstances, including the importance of the proxy issue and the nature of the conflict of interest.

Clients may request from their Financial Advisor:

- i. a copy of the Proxy Voting Policies and Procedures; and/or
- ii. information concerning how MSSB voted proxies with respect to the securities held in client's account (based on instructions received from the applicable Sub-Manager for accounts other than Strategic Portfolios accounts).

Cost of MSSB Advisory Programs and Services Relative to Non-Asset-Based Fee Alternatives; Relative Costs of MSSB Consulting Group and Portfolio Management Group Asset-Based Fee Program Alternatives

Clients who participate in the programs or retain the services described in this brochure and who pay asset-based fees for a variety of services may pay more or less for such services than if they purchase such services separately. Factors that bear upon the cost of Consulting Group and Portfolio Management Group asset-based fee programs in relation to the cost of the same services purchased separately include, among other things, the type and size of the account, the historical and expected size or number of trades for the account, and the number and range of supplementary advisory and client related services provided to the account.

A portion of the fees and/or brokerage charges imposed by MSSB for the programs offered herein are paid to Financial Advisors or employees of MSSB affiliates in connection with the introduction of accounts as well as the provision of services. Such payments may be made for the duration of client accounts. The amount of the fees received by MSSB, Financial Advisors and employees of MSSB affiliates may be greater if the client participates in an asset-based fee program instead of paying separately for investment advice, brokerage and other services; the client's portfolio is managed by a Portfolio Manager affiliated with MSSB rather than an unaffiliated manager; and/or the client selects a particular Consulting Group or Portfolio Management Group asset-based fee program over other Consulting Group or Portfolio Management Group asset-based fee programs. In addition, MSSB and its affiliates retain a larger portion of the fee when an affiliated Portfolio Manager is used, since no part of the fee is shared with an outside manager. Because of these factors, MSSB, Financial Advisors and employees of MSSB affiliates may have a financial incentive to recommend certain alternative methods of paying program fees and charges (e.g., asset-based fee) over another alternative (e.g., fee plus commission), or one program (e.g., a MSSB program using a MSSB-affiliated Portfolio Manager) over another program (e.g., a Consulting Group program using an unaffiliated manager).

Investment managers may offer to the public other investment products such as mutual funds with similar investment styles and holdings as those investments offered through the Consulting Group programs. Such products may be offered at differing fees and charges that may be higher or lower than the fees imposed by MSSB under a Consulting Group program. Clients should discuss all investment options with their Financial Advisor.

Additional Information Regarding Fees and Charges

In addition to the asset-based fees and fee-plus-commission fees specified above, clients of MSSB may pay additional fees or charges in connection with their accounts or certain securities transactions. These may include: commissions and other charges for executing transactions (except in the case of asset-based-fee account trades executed through CGM); interest on any debit balances; dealer mark-ups, mark-downs and spreads; auction fees; certain odd-lot differentials; exchange fees; transfer taxes; electronic fund and wire transfer fees; charges imposed by custodians other than CGM; fees imposed in connection with Smith Barney Financial Management Accounts; certain fees in connection with custodial, trustee and other services rendered by a MSSB affiliate; a termination fee of \$50 for IRA accounts, which may be amended from time to time; SEC fees on securities trades; any other charges mandated by law; and certain fees in connection with the establishment, administration or termination of retirement or profit sharing plans or trust accounts. In addition, if MSSB is a member of the underwriting syndicate from which a security is purchased, MSSB and the Financial Advisor may indirectly benefit from such purchase.

If an open- or closed-end mutual fund or an ETF is utilized by MSSB as an account investment, any such fund may pay its own separate investment advisory fees and other expenses to the fund manager or other service provider. In addition, an open-end mutual fund may charge distribution or servicing fees. In both cases these fees or expenses will be in addition to the fee paid by Client on the account.

Notwithstanding the foregoing paragraph, if a mutual fund managed by an affiliate of the Manager in the FS Legg Mason Program is utilized as an investment in a client's FS Legg Mason account, such fund will pay its own separate investment advisory fees, unless such fund is made available only to managed account clients and is not charged fund-level investment advisory fees or other expenses.

To the extent that fees or commissions charged are negotiable, they may differ from client to client based upon a number of factors, including, but not limited to, the type and size of the account, the historical and/or expected size or number of trades for the account, and the number and range of supplemental advisory and client-related services to be provided to the account. Moreover, fee minimums and account minimums may vary as a result of the application of prior schedules depending upon customer account inception date. Minimum account sizes also may be waived under certain circumstances. Performance-based fees may also be charged to eligible clients, are negotiable, and will be in compliance with any applicable provisions of Rule 205-3 under the Investment Advisers Act of 1940. From time to time, the fees for certain of the advisory services described herein may be reduced for employees of MSSB or its affiliates. For more information regarding the above, the client may contact the client's Financial Advisor.

Additional assets received into an account during any billing period may be charged a pro-rata fee based on the number of days remaining in the billing period. No adjustments will be made to the fee for appreciation or depreciation in the market value of securities held in the account, or with respect to partial withdrawals by Client, during any billing period for which such Fee is charged. In the event that the client agreement is terminated by either party prior to the end of a billing period, a pro-rata refund of the fee will be made.

Generally, interest will be charged to a client's account should the account have a debit balance as a result of the client's activity. Any debit balance will not be deducted from the account balance for purpose of the calculation of the advisory or consulting fee due to MSSB. When CGM has custody of the client's assets, it credits interest and dividends to the account. All client billing for fee-based programs will be based on the statement value including the accrued interest portion of fixed income securities. Margin may be used to enhance performance (with the resulting increased risk of loss), as determined by ongoing consultations with clients.

In the asset-based fee programs described in this brochure, the investment management firm retained by the client (or, in the case of model based programs such as CG Select UMA, the Overlay Manager) is obligated to seek the best net results (price, research, and execution) with respect to securities trades undertaken for each client. Please see the following Section "*Execution of Transactions When MSSB is the Overlay Manager.*" In seeking best execution with respect to equity securities and other instruments traded in the "agency" markets (typically those executed through an exchange, to which orders are directed by a broker-dealer acting as agent for a client), such

investment management firms may direct orders to MSSB. In connection with these trades, the asset-based fee client will not pay CGM any commissions. Alternatively, the investment manager, in its discretion, may determine to direct agency trades to broker-dealers other than CGM; in such instances, the client will bear the cost of any commissions charged by the executing broker-dealer. These other broker-dealers may charge a commission for these trades, and may “step-out” the trades to CGM for clearance and settlement. Investment managers in the asset-based fee programs described above are likely to execute a substantial percentage of such transactions for clients with CGM.

The investment manager (including the Manager in the FS Legg Mason Program) may act as investment manager for other investment management programs (“Other Programs”). The investment manager may have arrangements with one or more broker-dealers that are not affiliated with the investment manager or MSSB (the “Step-Out Broker”), pursuant to which the investment manager may direct a block of trades (which block may include trades for the Program and for Other Programs) to the Step-Out Broker. Pursuant to these arrangements, the Step-Out Broker may execute these blocks of trades at no commission, and “step-out” the program trades to CGM for clearance and settlement. Similarly, the investment manager may direct a block of trades (which block may include trades for Other Programs and for the Program) to CGM for execution, in which event CGM may execute these blocks of trades at no commission and “step-out” the Other Program trades to other broker-dealers for clearance and settlement. Although the Step-Out Broker and CGM may execute these trades at no commission, they may obtain a benefit from executing the block trades, as a result of the increased trading volume attributable to these blocks.

The investment manager may place these block trades at or about the same time the investment manager (or any Sub-Manager responsible for the underlying investment decision) places block or other trades for the same securities on behalf of mutual funds, institutional separate accounts or other investment management clients of such investment manager or Sub-Manager, and that may result in a market impact for the securities traded. The investment manager will engage in these “step-out” transactions, but only where the investment manager has determined that doing so is consistent with its obligation to seek best execution for clients. Where the client has elected to pay MSSB on a fee plus commission basis at an agreed upon commission rate, the commission rate charged by MSSB to the client will generally be at the agreed upon rate, whether the trade is executed by CGM or is executed by another broker-dealer and “stepped-out” to CGM for clearance and settlement as described above. This is so, whether the other broker-dealer executes the trade at no commission or charges the client a commission on the trade (in addition to the commission charged to the client by MSSB).

The investment manager will not consider the agreed-upon commission rate for fee-plus-commission accounts in determining whether execution is “best execution.”

Certain securities, such as over-the-counter (including NASDAQ-traded) stocks and fixed income securities, primarily are traded in “dealer” markets. In such markets, securities are directly purchased from or sold to a financial institution acting as a dealer or “principal.” Principal trades are executed on a “net” basis, with the net price paid or received by the client reflecting any trading profit retained or loss incurred by the dealer executing the transaction, as well as any mark-up or mark-down over or under the reported execution price.

CGM does not generally act as principal in executing trades for clients for which an investment manager affiliated with MSSB provides the client with portfolio management services (i.e., determines which securities are to be bought and sold for the client) or in the Fiduciary Services, PM, GIS or GPM Programs (although MSSB may do so in rare cases if certain regulatory conditions are met, including, among other things, obtaining client consent prior to completion of the trade). If CGM receives trade orders for securities traded in the dealer markets with respect to such clients, it normally executes those orders as agent through a dealer unaffiliated with CGM. Neither CGM nor MSSB receives any commissions or other compensation in connection with such trades, although the client bears the cost (including any mark-up or mark-down) imposed by the unaffiliated dealer.

In the Smith Barney Advisor Program, CGM may execute trades as principal, in accordance with relevant statutes and regulations.

CGM may execute trades as principal with respect to orders received from investment management firms unaffiliated with CGM that provide portfolio management services to clients in the CES and IMS programs. This will result in CGM realizing customary dealer profits or losses on the trades. Any profit or loss on principal trades would be separate from, or additional to, and would not reduce or otherwise offset, compensation received by MSSB in its capacity as sponsor of the CES and IMS asset-based fee programs. Investment management firms in these programs also may direct principal trades to dealers unaffiliated with CGM; when this is done, the dealer to which

the trade is directed (not CGM) will realize a dealer profit or loss on each trade and may also charge a mark-up or mark-down.

In the case of clients in the FS Legg Mason, CES or IMS programs that pay on a fee plus commission basis, the client pays the investment management firm directly for its fee and pays MSSB for its services on the basis of transactions sent by the investment management firm to CGM for execution. The compensation earned by MSSB from such transactions is in lieu of a fee for its services. The client agrees to furnish the investment management firm with a letter informing the investment management firm of client's compensation arrangement with MSSB and instructing the investment management firm to use CGM for executing transactions for client's account, so long as such use is not inconsistent with the investment management firm's obligation to seek best execution for its clients. The commissions charged by MSSB may exceed those that other broker-dealers may charge. Generally, the commission rates payable by a client are negotiated between the client and his or her Financial Advisor, except as specifically provided herein. A client may negotiate a commission rate that exceeds that rate paid by other clients and the rate that the client's investment manager may be able to obtain from other broker-dealers. There is no minimum or maximum total amount of compensation MSSB and its Financial Advisors may receive from the investment management firm's decision to execute transactions for the account at MSSB. The investment management firm's decision to use MSSB to execute transactions for the client's account may result in executions that may not be as favorable as otherwise would be the case, and the client may forego other benefits, such as the ability to participate in block trades. Less favorable execution or the inability to participate in block trades may result in poorer investment performance.

Outside of the asset-based fee programs described in this brochure, the price paid or proceeds received by MSSB retail clients in connection with principal trades executed by CGM typically includes a mark-up or mark-down that is included in the net price of the trade, which is used to compensate the Financial Advisor. Any principal trade executed for CES or IMS clients will not include any such mark-up or mark-down; instead, Financial Advisors are compensated only out of the client's asset-based fee.

Execution of Transactions When MSSB is the Overlay Manager

This section describes MSSB's handling of trade execution responsibilities (as introducing broker to CGM) with respect to client accounts where MSSB is the Overlay Manager. MSSB and a Sub-Manager may agree that such Sub-Manager is responsible for executing all or certain transactions on behalf of client accounts. With respect to such transactions, MSSB has no execution responsibilities and will not be in a position to monitor for best price and execution.

Each client (or the Program Sponsor of a wrap fee program in which a client participates) generally directs MSSB (as Overlay Manager) to execute, or is generally informed that MSSB will execute, securities transactions through the client's Program Sponsor or a broker-dealer designated by the sponsor (designated broker), subject to MSSB's obligation to seek best execution. To the extent not inconsistent with such directions, disclosures and applicable agreements, MSSB, in its sole discretion and in accordance with applicable law (including MSSB's obligation to seek best execution), may effect transactions for accounts through or with the Program Sponsor, the program's designated broker-dealer or any other broker or dealer.

It is MSSB's policy to seek best qualitative execution when executing transactions on behalf of clients. Best execution is not necessarily measured by the circumstances surrounding a single transaction, but may be sought over time across multiple transactions. MSSB may select broker-dealers, including alternative execution services (e.g., electronic communication networks and crossing networks), for trade execution which, in its best judgment, provide prompt and reliable execution at favorable security prices with reasonable commission rates and/or other transaction costs. The best net price, giving effect to brokerage commissions, commission equivalents, spreads and other costs, is an important factor in this decision, although a number of other factors may also enter into the decision. These factors may include: price level; available commission rates, mark-ups, mark-downs and/or spread levels; the nature of the security being traded; the size and complexity of the transaction; the desired timing of the trade; the activity existing and expected in the market for the particular securities; confidentiality; execution, clearance and settlement capabilities; counterparty financial condition and reliability; the availability of capital commitment; and other relevant and appropriate services of the broker-dealer.

MSSB may implement purchase and sale transactions in ADRs for client accounts through broker-dealers that facilitate investment in ADRs through transactions in a company's ordinary shares in non-U.S. markets and the

conversion of such shares into ADRs. Such transactions typically involve foreign exchange, ADR conversion and related costs and charges which are reflected in a net price paid or received by the client. Such costs and charges are in addition to the fees and commissions payable for account management and security trade execution.

If the client is a participant in a wrap fee program, under which the client is charged an asset-based fee for portfolio management and trade execution services, the client typically will not pay any transaction-specific commissions on agency trades executed by the Program Sponsor or designated broker. A wrap fee program client may pay transaction-specific commissions, commission equivalents or spreads on trades MSSB directs to a broker-dealer other than the Program Sponsor or designated broker. These fees or charges may be separately charged to the client's account or reflected in the security net price paid or received. Due to the separate fees or charges that may be incurred when MSSB effects trades for a wrap-fee-program client with broker-dealers other than the Program Sponsor or designated broker, it is expected that MSSB will effect a large percentage of transactions for a client's account that are driven by activity specific to that account (e.g., additions and withdrawals) with the Program Sponsor or designated broker.

In the case of trades that are driven by a change in an underlying Sub-Manager's investment model and that need to be effected for many clients, MSSB generally will seek to aggregate these trades for execution through a single broker-dealer in a block trade and then to step out those trades to the applicable Program Sponsor for clearance and settlement in the ordinary course. MSSB has established relationships with one or more broker-dealers that have generally agreed to execute such block trades at no additional cost to MSSB's clients. The broker-dealers that are willing to execute block trades on behalf of MSSB's clients typically are sponsors of wrap fee programs in which MSSB participates. Accordingly, a portion of the client accounts participating in the trade typically will be accounts that have paid a wrap fee covering execution to the executing broker-dealer ("non-trade away accounts"). A portion of participating accounts will be accounts that pay a wrap fee or transaction-specific compensation to a broker-dealer other than the executing broker-dealer ("trade away accounts"). For trade away accounts, MSSB directs the executing broker-dealer to allocate and deliver the portion of the trade attributable to such accounts to the client's sponsor or designated broker for clearance and settlement. While aggregating trades as indicated could be viewed as providing a benefit to trade away accounts at the expense of non-trade away accounts, it should be noted as an equitable matter that: (i) trade away clients pay transaction-related compensation to their designated broker-dealer instead of the executing broker-dealer, and (ii) it is not expected that the wrap fees paid by non-trade away clients will be affected by such block trading arrangements.

MSSB believes that handling model change trades in this manner generally enhances MSSB's ability to obtain best execution for client accounts. Using a sponsor-by-sponsor trade rotation process can in some cases create market impact, which results when earlier trades move the market, causing subsequent trades to receive different prices, as well as information leakage. A rotation process also can create "signaling" concerns (i.e., broker-dealers anticipate additional trades in same security and use this information to the detriment of the manager's clients), and timing differences that result in clients' obtaining different execution prices and performance dispersion among accounts. MSSB also may be able to negotiate volume price discounts on block trades and take advantage of the additional sources of liquidity that certain broker-dealers can provide. In addition, all clients, including non-trade away clients, benefit from the liquidity and other benefits provided by block trading.

From time to time, MSSB may determine not to, or be unable to, aggregate model-change trades through a single broker-dealer in a block trade. In such cases, MSSB will execute trades with each sponsor or designated broker by following trade rotation policies and procedures designed to ensure that trade orders and instructions are communicated in a manner and sequence that is fair and equitable to MSSB's clients.

In engaging an underlying Sub-Manager, MSSB will seek assurances that the Sub-Manager will communicate model changes to MSSB in accordance with procedures that are designed to be fair and equitable to MSSB's clients in relation to other clients of the Sub-Manager. Such procedures could include a rotation process or the simultaneous transmission of model-change information to multiple venues, including MSSB and a trading desk maintained by the Sub-Manager to effect transactions on behalf of other client accounts, or a combination of both. In the case of simultaneous transmission, it is anticipated that orders that MSSB places in most cases will end up competing in the marketplace with orders placed by the Sub-Manager's trading desk on behalf of its other clients. This competition has the potential to negatively impact all clients of the Sub-Manager, though competition concerns are mitigated where the securities involved have significant trading volume and high liquidity. In the case of less

liquid securities, an underlying Sub-Manager may seek to mitigate competition concerns through the use of limit orders and specific price targets, among other means. Ultimately, it is the Sub-Manager's responsibility to ensure that the clients are treated fairly and equitably with respect to the transmission of model-change information.

While MSSB has established processes to implement model change trades promptly, a Sub-Manager's trading desk may, notwithstanding the simultaneous transmission of model-change information, be able to place certain trade orders with broker-dealers for its other client accounts prior to the time that MSSB is able to do so for wrap-fee program clients, due to unique servicing requirements associated with such accounts. MSSB's clients could be negatively impacted by such timing differences.

Compensation from Funds

Certain Funds and the Funds' affiliates available through the TRAK NAV, TRAK CGCM, CG Select UMA, PM, GPM, GIS, ETF, Fiduciary Services, FS Legg Mason and CES programs may offer additional compensation to MSSB in the form of 12b-1 fees, management and administrative fees, transfer agency fees, revenue sharing compensation, record-keeping fees, shareholder servicing fees or any other Fund-related fees (collectively referred to as "Fund Fees"). However, under the Fiduciary Services, FS Legg Mason and CES programs, MSSB will not seek or retain any Fund Fees from participating Funds and will credit the client's account in the amount of any such fees received by MSSB. Accordingly, in these programs, the aggregate fees received by MSSB will not vary depending on the eligible assets in which the client invests. Any fees credited to a client's account will be reported to such client as additional income if the client account is taxable. However, in the TRAK NAV, CG Select UMA, PM, GPM, GIS and ETF programs, MSSB will retain Fund Fees currently in an amount up to 0.12% (the "0.12% Fund Fee") from fund companies or their affiliates on all taxable clients' mutual fund assets. Any Fund Fees received by MSSB in excess of the 0.12% Fund Fee will be credited to the client's account and will be reported to such client as additional income. MSSB will not receive the 0.12% Fund Fee and will credit any Fund Fees for the retirement accounts in these Programs. In the TRAK CGCM program MSSB receives investment management fees as described in the TRAK CGCM section above.

Notwithstanding the foregoing, in the event non-retirement account cash balances in any of the programs discussed in this Form ADV Schedule H are invested in money market funds sponsored or managed by affiliates of MSSB, MSSB receives and retains Fund Fees from those money market funds or those money market funds' affiliates (see "Potential Conflicts of Interest" below).

In addition, non-retirement clients may also purchase closed-end funds and MSSB may receive additional compensation from the purchase of these closed-end funds. As a result, there may be a potential for a conflict of interest, to the extent that the additional payments could influence the selection of these closed-end funds.

Termination

Generally, client agreements with MSSB or its affiliates for investment management services may be terminated at the written request of the client or MSSB. The procedures and conditions pursuant to which MSSB or any client may terminate a contract are described in such contract. Additionally, the client may terminate a contract without penalty within five business days of the contract's execution by MSSB. In the event a client terminates an investment management agreement after the fifth business day, MSSB will charge a pro-rata fee through the termination date. In the event fees are paid in advance, a pro-rata refund of said fees would be made when an advisory agreement is terminated prior to the end of the fee period. Termination of an agreement will not affect or preclude the consummation of any transaction initiated prior to termination.

ABOUT MSSB

MSSB is a full-line financial services firm. MSSB's principal activities include retail and institutional private client services, including, but not limited to: providing advice with respect to financial markets, securities and commodities, and executing securities and commodities transactions as broker or dealer; securities underwriting and investment banking; investment management (including fiduciary and administrative services); and trading and holding securities and commodities for its own account.

MSSB is registered as a securities broker-dealer and as a futures commission merchant. Affiliates of MSSB are registered as commodity pool operators and/or commodity trading advisers. MSSB is a member of the New York

Stock Exchange and the Financial Industry Regulatory Authority, formerly known as National Association of Securities Dealers, Inc.

Through its Smith Barney and Morgan Stanley channels, MSSB offers a wide variety of investment advisory services and programs. As of June 30, 2009, MSSB had over \$334 billion of assets in its advisory programs,⁷ including over \$246 billion of assets under management. MSSB's investment advisory services are available to individuals; banks or thrift institutions; retirement plans such as pension and profit sharing plans; investment companies; trusts; estates; charitable organizations; corporations or other business entities as well as governmental entities. MSSB has many affiliated investment advisers. Please refer to the MSSB ADV Part I for a full listing.

Compensation Paid to MSSB

A portion of the advisory fees charged by MSSB are paid to Financial Advisors or employees of MSSB affiliates in connection with the introduction of accounts, as well as the provision of supplemental and other client-related services. Such payments may be made for the duration of the client accounts.

MSSB may permit qualifying clients to take out loans that are secured by assets in the client's account. MSSB may earn fees and other income for services provided in connection with the loans, in addition to the asset-based fee which is earned on collateral (asset-based fee account assets) for the loans. Before taking out a loan, the client should consider (i) the alternative of liquidating part of the account, and (ii) the possibility that the return on the collateral may be lower than the interest paid on the loan, especially if the collateral is a low-producing asset class (such as a money market fund). The client should be aware that MSSB, acting as client's creditor, will have the authority to liquidate all or part of the account at any time to repay any portion of the loan, even if the timing of the liquidation may be disadvantageous to the client.

Code of Ethics

As part of an overall internal compliance program, MSSB is subject to codes of ethics and related policies and procedures (collectively, the "Code of Ethics") imposing standards of business conduct, including requirements to put client interests first and not to take inappropriate advantage of employment-related information. The Code of Ethics also imposes restrictions on employee personal securities transactions and accounts. Such restrictions include, for all employees, prohibitions on trading in securities while in possession of related material, nonpublic information and, for certain MSSB employees, including Financial Advisors, minimum holding periods in certain situations, and reporting of personal securities accounts, transactions and/or holdings to the Compliance Department or supervisory business personnel. The purposes of the Codes of Ethics include minimizing potential conflicts of interests between employees and investment advisory clients and assuring compliance with applicable laws and regulations. Existing and prospective MSSB clients may obtain copies of the applicable Code of Ethics by mailing a written request for such document to:

Morgan Stanley Smith Barney LLC
Attention: Consulting Group Compliance
480 Washington Boulevard - 19th Floor
Jersey City, NJ 07310

POTENTIAL CONFLICTS OF INTEREST

Conflicts of Interest Relating to MSSB

Transaction-Related Agreements with Citi and Morgan Stanley

As part of the Transaction, MSSB entered into certain agreements with Citi and Morgan Stanley, including the following:

- *Clearing.* An agreement providing that, subject to MSSB's duty of best execution, Citi and Morgan Stanley (or their applicable affiliates) will act as fully-disclosed clearing brokers for MSSB, which will act as an introducing broker. MSSB has a conflict of interest in introducing client trades to Citi and Morgan Stanley.

⁷ Assets in Advisory Programs include assets in which MSSB receives an asset-based fee, and MSSB may give on-going advice to clients regarding recommending managers; however, MSSB does not retain discretion as to the selection of those managers.

- *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 Citi, Morgan Stanley and their respective affiliates. MSSB has a conflict of interest in transmitting client orders to Citi and Morgan Stanley.
- *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 Citi, Morgan Stanley or their respective affiliates. MSSB has a conflict of interest in offering, recommending or purchasing any such security or other product to or for its advisory clients.
- *Investment Research.* An agreement that Citi and Morgan Stanley (or their applicable affiliates) will supply investment research prepared by their respective research groups to MSSB for its use. It is possible that Citi's research group, on the one hand, and Morgan Stanley's research group, on the other hand, may reach different conclusions, and may make different recommendations, with respect to the same issuer or investment manager. This may, among other things, result in different investment decisions or recommendations regarding the same issuer or investment manager being made for or given to MSSB advisory clients.

Conflicts of Interest Arising From the Joint Venture's Affiliation with Citi and Morgan Stanley

Since MSSB is affiliated with both Citi and Morgan Stanley, the number of affiliates and the potential conflicts involving affiliates have increased. These potential conflicts include the following:

- *Affiliated Products and Services.* MSSB may offer, recommend and/or purchase, to or for its advisory clients: mutual fund shares, interests in private investment funds, other investment products or securities, and investment advisory services issued, sponsored or provided by Citi, Morgan Stanley or their respective affiliates. MSSB and its affiliates may receive more aggregate fees or other revenue if an MSSB advisory client purchases an affiliated product, security or service instead of an unaffiliated product, security or service.
- *Research Reports.* CGM and Morgan Stanley do business with companies covered by their respective research groups. Furthermore, CGM, Morgan Stanley and their respective affiliates may hold a trading position (long or short) in, and client accounts may hold, the securities of companies subject to such research. Therefore, CGM and Morgan Stanley have a conflict of interest that could affect the objectivity of their research reports.
- *Different Advice.* MSSB, the investment managers in its programs, Citi, Morgan Stanley and their respective 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 a client.
- *Trading or Issuing Securities in, or Linked to Securities in, Client Accounts.* CGM and Morgan Stanley may provide bids and offers, and may act as principal market-maker, in respect of the same securities held in client accounts. MSSB, the investment managers in its programs, CGM, Morgan Stanley and their respective affiliates and employees, may hold a position (long or short) in the same securities held in client accounts. CGM and Morgan Stanley are each a regular issuer of traded financial instruments linked to securities that may be purchased in client accounts.
- *Services Provided to Other Clients.* CGM, Morgan Stanley, MSSB and their respective affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for various clients, including issuers of securities that MSSB may recommend for purchase or sale by clients or are otherwise held in client accounts. CGM, Morgan Stanley, MSSB and their respective affiliates receive compensation and fees in connection with these services.

- *Restrictions on Securities Transactions.* There may be periods during which MSSB is not permitted to initiate or recommend certain types of transactions in the securities of issuers for which Citi, Morgan Stanley or one of their respective affiliates is performing broker-dealer or investment banking services. Furthermore, in certain advisory programs, MSSB may be compelled to forgo trading in, or providing advice regarding, Morgan Stanley or Citi securities, and certain related securities. These restrictions may adversely impact client account performance. Clients whose accounts currently hold securities issued by Morgan Stanley or Citi should be aware that MSSB will not provide investment advice with respect to such securities.
- *Agency Cross Transactions.* Agency cross transactions (i.e., transactions in which MSSB or an affiliate acts as broker for the parties on both sides of the transaction) may be effected for client accounts to the extent permitted by law. MSSB or an affiliate may receive compensation from parties on both sides of such transactions (the amount of which may vary) and, as such, MSSB (and any such affiliate) will have a potentially conflicting division of loyalties and responsibilities. Client consent to agency cross transactions may be revoked at any time by written notice to MSSB.
- *Certain Trading Systems.* If MSSB directly or indirectly effects client trades through exchanges, electronic communication networks or other alternative trading systems (“Trading Systems”) in which its affiliates have an ownership interest, these affiliates may receive an indirect economic benefit based upon their ownership interest. Currently, affiliates of MSSB (including affiliates of Citi and Morgan Stanley) own over 5% of the voting securities of certain Trading Systems, including: BATS Trading, Inc., operator of BATS Electronic Trading Network (commonly known as “BATS”); the entities that own and control the Block Interest Discovery System (commonly known as “BIDS”); LavaFlow Inc.; EBX Group, LLC; ELX Futures Holdings, LLC; ELX Futures, LP; TheMuniCenter; Automated Trading Desk Financial Services LLC; Automated Trading Desk Brokerage Services LLC; Boston Options Exchange, LLC; FX Alliance Inc.; and National Securities Exchange. Other Trading Systems on which MSSB may execute trades for client accounts include: Archipelago, eSpeed, Instinet, NYFIX, Track ECN, BondDesk, ValuBond, NYSE Euronext, TradeWeb, and MarketAxe. The Trading Systems on which MSSB trades for Client accounts and in which affiliates of MSSB own interests may change from time to time. The Client may contact the Client’s Financial Advisor for an up-to-date list of Trading Systems in which affiliates of MSSB own interests and on which MSSB 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 receives 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 may directly or indirectly effect client trades execute transactions on a “blind” basis, such 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 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.

MSSB, its Affiliates and its Employees May Receive Additional Compensation from the Investment Management Firm(s) They Recommend

MSSB has trading, investment banking and other business relationships with investment management firms. These investment management firms may include the investment adviser(s) for one of the investment advisory programs recommended to clients by the Financial Advisor. In addition, some Financial Advisors may receive financial benefits from investment management firms, in the form of compensation for trade executions for the accounts of investment management firms or accounts that are managed by such investment management firms, or through referrals of brokerage or investment advisory accounts to the Financial Advisor by such investment management firm.

In determining the investment management firm's eligibility for its investment advisory programs, MSSB does not consider the extent to which an investment management firm directs or is expected to direct trades to MSSB for execution. Such direction is left to the discretion of the investment management firm retained by the client, which, absent client direction to the contrary, is obligated at all times to seek best execution. Nonetheless, investment management firms retained by clients may perceive a potential conflict of interest between their obligations to seek best execution and their interest in receiving client referrals pursuant to the investment advisory programs. For a client who chooses the commission-based option in the those advisory programs in which it is available, MSSB and its Financial Advisors could have a financial incentive to recommend an investment management firm that trades actively, thereby executing more transactions for the account.

Investment management firms participating in a Consulting Group program may make payments to MSSB for: marketing, promotional and related expenses; expenses incurred in connection with training or educational seminars with Financial Advisors and other MSSB personnel; or expenses incurred in connection with client or prospective client meetings relating to a Consulting Group program. In addition, investment management firms and their affiliates may provide Financial Advisors and clients (existing and prospective) with related items and benefits. These expenses, items and benefits may include, without limitation: training meeting costs for Financial Advisors or other personnel, including payments for travel, lodging and meals for attendees; payments of costs for client/prospect meetings at which the investment management firms' or their affiliates' services or investment products are discussed, including meals for attendees, room rental costs and meeting-related presentation materials; occasional meals and leisure/entertainment outings; *de minimis* gifts; and nominal value promotional items.

The amount of such payments and the value of such items and benefits may or may not be substantial, and will be determined at the discretion of MSSB. Although these payments, items and benefits will not be pre-conditioned on sales targets and levels, they nevertheless could give MSSB and Financial Advisors incentives to favor one investment management firm over another investment management firm that does not provide the same items, payments and benefits. However, such payments, items and benefits are subject to MSSB's policy that addresses and, in some cases, limits such payments, items and benefits, with the overall aim to avoid compromising advice or recommendations given to clients by special incentives or compensation arrangements.

Global Transaction Services, a business unit of Citi, receives compensation for providing administrative, custody, transfer-agent and back-office services to investment management firms, mutual funds and hedge funds (collectively "Investment Management Firms"). These Investment Management Firms may include Investment Management Firms recommended in the investment advisory programs described herein.

MSSB Maintains Business Relationships with Companies that May Be Selected or Recommended for a Client's Portfolio

Portfolio selection decisions made under the PMG programs may be based in large measure on the fundamental research opinions of MSSB's Research Division. MSSB does, and seeks to do, business with companies covered by its Research Division; as a result, MSSB may have a conflict of interest that could affect the objectivity of its research reports. If such objectivity is affected, it might impact the underlying fundamental opinion upon which investment management decisions are made. In addition, MSSB usually provides bids and offers and may act as principal market maker in connection with transactions in the same securities that may appear in a client's portfolio. MSSB is a regular issuer of traded financial instruments linked to securities that may be purchased. MSSB may hold a trading position (long or short) in the shares of the securities in a client's portfolio or in the shares of companies subject to its research.

As noted previously in this brochure, in selecting investment management firms for participation in certain of the investment advisor programs described herein, CG IAR uses two methods to evaluate the investment management firms: Opinion Research and Access Research. Please refer to the "GENERAL ACCOUNT INFORMATION — Research in MSSB's Advisory Programs" for additional details as to CG IAR's research process in selecting Investment Management Firms for participation in the these investment advisory programs and the conflicts of interest that may arise pertaining to CG IAR's research process.

MSSB and its affiliates provide a variety of services for various clients, including issuers of securities that MSSB may recommend for purchase or sale by clients. MSSB performs a wide range of investment banking services for various clients, and it is likely that MSSB client holdings will include the securities of issuers for whom MSSB performs investment banking services. MSSB client portfolios may include securities in which MSSB makes a market or in which MSSB, its officers or employees have positions. MSSB and its affiliates receive compensation

and fees in connection with the provision of the foregoing services. As part of an overall internal compliance program, MSSB has adopted policies and procedures imposing certain conditions and restrictions on transactions for MSSB's own account or the accounts of its employees. Such policies and procedures are designed to prevent, among other things, any improper or abusive conduct when potential conflicts of interest may exist with respect to a customer or client.

MSSB May Be Restricted in its Ability to Trade or Provide Certain Advice

In order to comply with applicable regulatory requirements, there are time periods during which MSSB is not permitted to initiate or recommend certain types of transactions in the securities of issuers for which MSSB is performing investment banking services. In particular, when MSSB is engaged in an underwriting syndication or other distribution of corporate or municipal securities, MSSB may be prohibited from purchasing or recommending the purchase of certain securities of an issuer for its clients. Notwithstanding the circumstances described above, a client, on his or her own initiative, may direct MSSB to place orders for specific securities in the client's account. From time to time, restrictions are imposed by MSSB to address the potential for self-dealing by MSSB and conflicts of interest that may arise in connection with MSSB's broker-dealer and investment banking businesses. MSSB has adopted various procedures to guard against insider trading that include an "Information Barrier" procedure, pursuant to which information known within one area of MSSB (e.g., investment banking) may not be distributed to other areas (e.g., investment advisory), and use of a restricted list and various other monitoring lists. These investment banking or other activities may, from time to time, compel MSSB, the Overlay Manager, or their affiliates to forgo trading in the securities of companies with which these relationships exist. This may adversely impact the investment performance of a client's account.

MSSB May Give Conflicting Advice or Trade Differently for Itself than Client's Accounts

MSSB and its affiliates may recommend securities in which they directly or indirectly have a financial interest, and may buy and sell securities that are recommended to PMG program clients for purchase and sale. They also may provide advice and take action, in the performance of their duties to Consulting Group or PMG program clients, which differs from advice given, or the timing and nature of action taken, with respect to other clients' accounts. Moreover, MSSB or any of its affiliates may advise or take action, with respect to itself or themselves, differently than with respect to Consulting Group or PMG program clients. In addition, MSSB, its affiliates, and employees, including Financial Advisors, may invest with any investment management firm. In situations in which the PMG Financial Advisors purchase or sell certain securities for their own accounts on the same day that transactions in such securities are effected for client accounts, the price paid or realized by advisory personnel generally may not be more advantageous than the price at which the client transactions are effected. If orders by advisory personnel are part of a batched client order and the entire block of securities is then not executed on the same day, no part of the order executed is permitted to be allocated to any advisory personnel. However, PMG Financial Advisors are not subject to additional personal trading restrictions, such as extended blackout periods, that are applicable to MSSB employees who are associated with an affiliated manager.

Potential Conflicts of Interest Pertaining to Compensation and Benefits to MSSB and Citi from Bank Deposit Program and Affiliated Money Market Funds

For non-retirement accounts, a client may elect that cash balances in the account be automatically invested or "swept" into either a Bank Deposit Program ("BDP") account or an affiliated money market sweep fund (each, a "Sweep Fund"). If a client elects the BDP, the client authorizes, without any further direction, that all cash balances in the account in excess of \$1.00 be automatically deposited or swept every business day into an account at one or more Federal Deposit Insurance Corporation ("FDIC") insured depository institutions affiliated with Citi ("Affiliated Program Banks"), as more particularly set forth in the BDP Disclosure Statement provided to the client. MSSB may amend the list of Affiliated Program Banks, and the Client may eliminate Affiliated Program Banks two and three from the list at any time.

The client is responsible to monitor the total amount of deposits the client has at each Affiliated Program Bank, in order to determine the extent of available FDIC insurance coverage available to the client; and Citi, MSSB, and their respective affiliates are not responsible for any insured or uninsured portion of the client's deposits at any of the Affiliated Program Banks.

Alternatively, if the client elects an eligible money market sweep fund, the client authorizes, without any further direction, that all cash balances in the account in excess of \$1.00 be automatically invested every business day into the money market fund that has been made available and that the client has chosen.

In the event the client does not select a Sweep Fund, the client authorizes the Financial Advisor assigned to the account or MSSB to select the Sweep Fund for the account. If the BDP is selected as the Sweep Fund, the Affiliated Program Banks will have the opportunity to earn income on the BDP assets through lending activity, and that income is usually significantly greater than the fees earned by MSSB on money market funds. Thus, MSSB has a conflict of interest in selecting or recommending BDP as the Sweep Fund, rather than an eligible money market fund. By signing an agreement for one of the programs described in this brochure, the client understands this potential conflict of interest and consents to the use of Legg-Mason-affiliated money market funds as investment vehicles for the account, to the extent permitted by law, and to the resulting payment of additional compensation to MSSB.

In MSSB investment advisory programs, non-retirement account cash balances may be invested in money market funds sponsored and managed by affiliates of Morgan Stanley. As set forth in the prospectuses of these funds, MSSB receives Fund Fees from these funds and may also receive payments from the funds' sponsors and managers and certain of their affiliates. The fees MSSB receives from these money market funds may be referred to as service fees under the funds' Rule 12b-1 distribution plans. The annual rate of these fees may be as high as 0.18% of managed account cash balances invested in the funds. These fees, along with other fund-level expenses (e.g., fund management fees), are separate from, and in addition to, the fees clients pay to participate in MSSB investment advisory programs. Payments to MSSB from the funds' sponsors and managers and their affiliates are sometimes referred to as "revenue sharing payments" and are made from their respective past profits, which may be attributable to fees collected from the fund (e.g., fund management fees) or other available sources. Unlike the services fees referred to above, however, these payments are not from fund assets and are not reflected in the funds' expense ratios. Such payments may be made for fund-related distribution and shareholder servicing activities, fund-related marketing, promotional or related expenses, or similar items and services.

At times, managers or MSSB may believe that it is in a Client's interest to maintain assets in cash, particularly for defensive purposes in volatile markets. The above-described BDP arrangements and 12b-1 and revenue sharing payments create a potential for a conflict of interest, to the extent that the additional payments could influence the selection of investment managers or an investment style that favors cash balances.

Please note that the Financial Advisor does not receive any of the BDP-related income or 12b-1 or revenue sharing payments described herein.

Potential Conflicts Relating to CGM's Trade Execution Services within MSSB's Advisory Accounts

Agency Cross Transactions

Agency cross transactions (i.e., transactions in which MSSB or an affiliate acts as broker for the parties on both sides of the transaction) may be effected for customer accounts to the extent permitted by law. MSSB may receive compensation from parties on both sides of such transactions (the amount of which may vary), and as such, MSSB will have a potentially conflicting division of loyalties and responsibilities. Client consent to agency cross transactions may be revoked at any time by written notice to MSSB.

Block Trades May Benefit MSSB or its Affiliates

As explained in "Additional Information Regarding Fees and Charges" above, an investment manager may direct some block trades to CGM for execution, which blocks may include trades for Other Programs and for the MSSB program. Although CGM executes these block trades at no commission, MSSB may obtain a benefit from executing these block trades, as a result of the increased trading volume attributable to these blocks.

Additional Risk Disclosure

Different classes of securities have different rights as creditor in the event the issuer files for bankruptcy or reorganization. By way of example, bondholders' rights generally are more favorable than shareholders' rights in the event of a bankruptcy or reorganization.

By signing an agreement for one of the programs described in this brochure, the client acknowledges this potential conflict of interest and consents to the use of Legg-Mason-affiliated money-market funds as investment vehicles for the account, to the extent permitted by law, and to the resulting payment of additional compensation to MSSB.

As explained in “*Additional Information Regarding Fees and Charges*” above, and in “*Execution of Transactions*” in Part III of the Legg Mason Brochure, the investment manager may direct some block trades to MSSB for execution, which blocks may include trades for Other Programs and for the MSSB program. Although MSSB executes these block trades at no commission, MSSB may obtain a benefit from executing these block trades as a result of the increased trading volume attributable to these blocks.

Trade Allocations

If a Financial Advisor acting as a portfolio manager in the PM, GIS or GPM program believes that the purchase or sale of a security is in the best interests of more than one client, he/she may, but is not obligated to, aggregate the securities to be sold or purchased to obtain favorable execution to the extent permitted by applicable law and regulations. In such event, the transactions will be allocated by the portfolio manager, according to a policy designed to ensure that such allocation is equitable and consistent with the portfolio manager’s fiduciary duty to its clients. These methods include, among others, pro rata allocation, random allocation or rotation allocation. The allocation method used in a particular transaction may vary, depending upon various factors, including the type of investment, the number of shares purchased or sold, the size of the account, and the amount of available cash or the size of an existing position in an account. Pursuant to these methods, aggregated orders are averaged as to price. There may be circumstances in which a PM, GIS or GPM portfolio manager or an MSSB-affiliated manager does not aggregate trades, and thereby does not obtain a lower mark-up or mark-down that may have been available. In addition, orders entered for a client’s account may involve transactions for the PM, GIS or GPM portfolio manager’s personal account, or any other related account.

Aggregation of Trade Orders; Trade Allocation; and Restrictions When MSSB is the Overlay Manager

As noted in the “*Execution*” section of this brochure above, MSSB generally will seek to aggregate trades that are driven by a change in an underlying Sub-Manager’s investment model and that need to be effected on behalf of a range of client accounts. In such event, the transaction will be allocated by MSSB, according to one or more methods designed to ensure that such allocation is equitable and fair. These methods include pro-rata allocation and random allocation. Pursuant to these methods, aggregated orders effected each day are averaged as to price. Under the random allocation method, a partially filled order is allocated to accounts included in the aggregated order on a random basis by MSSB’s trading system. This method generally will be used by MSSB only after consulting with and seeking direction or agreement from the portfolio management team at the applicable underlying Sub-Manager. The random allocation method is intended for situations in which the partial execution quantity is an amount that does not allow for a pro-rata allocation of securities to all accounts or does not allow for a meaningful allocation of securities to all accounts. Where an aggregated order covers clients in multiple Financial Institution programs, the securities generally are allocated to the Financial Institution programs participating in the order on a pro-rata basis. The securities are then allocated to clients within each Financial Institution program following one of the accepted trade allocation methods. MSSB does not consider account performance or fee structure in making investment opportunity allocation decisions. As a general rule, orders for employees will not be aggregated with orders for client accounts. However, managed accounts in which employees have an interest may be aggregated with orders for other accounts, so long as the employee accounts are treated in the same manner as other accounts.

When MSSB has discretionary authorization to effect investment transactions in a managed account, the extent of and limitations on that authority are determined by agreement with the Financial Institution, acting on its client’s behalf, or by agreement directly with the client. For example, conditions could be imposed which prohibit the purchase of specific industry groups or stocks for personal reasons, or prohibit the purchase of stocks which would increase individual security or industry/economic sector holdings above a certain percentage. It is MSSB’s policy to honor the limitations on authority that are agreed to, which necessarily vary from client to client, based upon client objectives and other factors; but MSSB is not otherwise generally limited as to such authority. MSSB will rely on Financial Institutions to provide MSSB with any special instructions or limitations on authority that a Financial Institution client has given the Financial Institution in connection with the management of the client’s funds.

A restriction imposed on an MSSB account (other than Legg Mason and ClearBridge SAI portfolios) is applied, at the time of purchase, to securities purchased by MSSB for the account and does not apply to securities transferred into the account, securities already held in the account at the time the restriction is imposed, securities that first come

within a restriction following MSSB's purchase of such securities, and securities acquired as a result of corporate actions (e.g., stock splits, stock dividends). A client may direct MSSB to sell particular securities or types of securities held in the client's account by contacting his or her Financial Institution representative.

Error Corrections

If a PM, GIS GPM or ETF Financial Advisor or an investment manager erroneously purchases a particular security for a client account and the error is discovered prior to settlement of the transaction, then, at no cost to the client, the erroneously purchased security may be placed into a separate MSSB error account, and MSSB may realize a profit (or loss) on the erroneously purchased security. Profits arising from post-settlement error corrections are not retained by MSSB and generally are credited to the client's account. Losses arising from post-settlement error corrections generally are closed out at no expense to the client.

Solicitations

MSSB may enter into agreements with third parties who solicit clients for MSSB's investment management products. Under such agreements, third parties may refer or solicit clients and receive compensation for such services. As a result of these arrangements, fees paid by clients may differ from the prevailing retail rate; but, in every arrangement with a third-party solicitor, the structure of the third-party solicitation agreement, including the compensation payable to the solicitor, will be disclosed fully to the client, as required by applicable law.

MSSB may use client lists when soliciting new clients, provided that the existing clients included on such lists have not expressly requested confidentiality, whether in a contract or by written or oral request.

MSSB's Advisory Services

MSSB recommends and employs various investment strategies in providing investment management services, depending upon the services to be rendered and the objectives and guidelines of the client. The investment strategies may involve long-term or short-term purchases, trading, and margin transactions. Not all of these strategies are appropriate for all clients, however, and only those strategies believed to be suitable will be utilized in any given client account or advisory program. It is anticipated that there may be a substantial degree of uniformity in client portfolios, as a result of the common investment objectives of the clients participating in the various programs.

Each of MSSB's and its affiliates' advisory programs may be based on different methodology, and as a result, asset allocation or investment recommendations may differ from program to program. In addition, MSSB and its affiliates may give advice and take action in the performance of their duties to clients which differs from advice given, or the timing and nature of action taken, with respect to other clients' accounts.

MSSB's investment management services generally rely on fundamental analysis with supplemental technical analysis, which may include charting or cyclical review. Computer technology may be employed to more readily display these factors to portfolio managers. Information is derived from many sources. Personnel involved in providing investment advisory services have available MSSB's research facilities and have access to economists and specialists in all major industry groups. Information may be obtained from various other sources, including: financial publications (including newspapers and magazines); industrial manuals and publications; inspections of corporate activities; direct contact with, and press releases and other reports released by, companies; annual reports, prospectuses and filings made with the Securities and Exchange Commission; research materials prepared by others; governmental reports; timing services; and corporate rating services. MSSB and its affiliates at times may not be free to divulge such information to investment advisory clients or act upon it on their behalf.

MSSB affiliates act as investment adviser to many open-end and closed-end investment companies, and also act as an administrator for a wide range of open-end and closed-end investment companies registered under the Investment Company Act of 1940. MSSB and its affiliates may also serve as investment advisers to a number of investment funds domiciled and sold outside the United States. Additionally, MSSB affiliates are the depositor and sponsor for numerous unit investment trusts, the portfolios of which are invested in equity and/or debt securities.

MSSB Brokerage and Research Services

As a registered broker-dealer, MSSB regularly advises clients with regard to and executes transactions in a wide variety of securities and other investments, including those specified above. MSSB and its affiliates also act in a partnership capacity in a number of limited partnerships in which its clients may invest. As a futures commission merchant, MSSB also provides advice on commodities and commodity-related products.

MSSB provides a wide range of research services to its clients, including reports, analyses, charts and graphs relating to various facets of the investment spectrum in equity and fixed income products. Research services generally are provided to clients on the assumption that the services generate commission or other business for MSSB. However, certain research services may be provided on a hard-dollar, fixed-fee basis and/or, in the case of firms that may re-sell such services, on a hard-dollar, royalty-fee basis. The amount or rate of any hard-dollar fee generally is negotiable.

Certain Civil and Regulatory Actions

The following notices are being furnished pursuant to Rule 206(4)-4 under the Investment Advisers Act of 1940, as amended.

The following settlements relate to activities of CGM:

SEC Administrative Proceeding Against Citigroup Global Markets Inc and Smith Barney Fund Management LLC

On May 31, 2005, the Securities and Exchange Commission (the “SEC”) issued an order in connection with the settlement of an administrative proceeding against CGM and Smith Barney Fund Management LLC (“SBFM”) relating to the appointment of an affiliated transfer agent for the Smith Barney family of mutual funds (the “Smith Barney Funds”). SBFM was an affiliate of CGM during the relevant period.

The SEC order finds that SBFM and CGM willfully violated Section 206(1) of the Investment Advisers Act of 1940 (“Advisers Act”). Specifically, the order finds 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 Service 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 that Citigroup Asset management (“CAM”), the Citigroup 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 finds 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 material provided to the Smith Barney Fund’s 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 interest and that no viable alternatives existed. SBFM and CGM do not admit or deny any wrongdoing or liability. The settlement does not establish wrongdoing or liability for purposes of any 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 requires Citigroup 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, and will be distributed pursuant to a plan to be prepared by Citigroup and submitted within 90 days of the entry of the order for approval by the SEC.

The order requires 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 Citigroup affiliate submits a proposal to serve as transfer agent or sub-transfer agent, an independent monitor must be engaged at the expenses of 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 Citigroup affiliate submits 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, Citigroup also must comply with an amended version of a vendor policy that Citigroup instituted in August 2004. The 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 Citigroup.

Revenue Sharing and Sales of Mutual Fund Class B and C Shares

In March 2005, CGM consented to the issuance of an SEC administrative order for two disclosure failures in the offering and selling of mutual fund shares. First, as alleged in the order, CGM violated the Securities Act of 1933 (“Securities Act”) and Rule 10b-10 under the Securities Exchange Act of 1934 (“Exchange Act”), by failing to disclose that it received revenue sharing payments from mutual fund advisers and distributors in exchange for preferential sales treatment. Second, as alleged in the order, CGM violated the Securities Act by failing to disclose adequately, at the point of sale, that Class B mutual fund shares, in amounts aggregating \$50,000 or more, were subject to higher annual fees. Under the terms of the order, the SEC: (1) imposed a censure against CGM; (2) required CGM to cease and desist from committing or causing any violations and any future violations of the applicable provisions; (3) imposed a \$20 million civil penalty against CGM; and (4) required CGM to comply with certain undertakings, such as retaining an independent consultant to conduct a review of CGM’s mutual fund sales practices and offering affected customers the option of converting their Class B shares into Class A shares.

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 failed to disclose that it received revenue sharing payments from mutual fund advisers and distributors, in exchange for preferential sales treatment, and failed to disclose adequately, at the point of sale, that Class B mutual fund shares, in amounts aggregating \$50,000 or more, were subject to higher annual fees. 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.

Research and Initial Public Offerings

In 2003, Salomon Smith Barney (“SSB”), now known as CGM, settled civil and regulatory actions brought by the SEC, the New York Stock Exchange (“NYSE”), the NASD, the Attorney General of the State of New York (“NYAG”), and state securities regulators, which alleged violations by SSB of certain federal and state securities laws and regulations, and certain NASD and NYSE rules, arising out of certain business practices concerning sell-side research during 1999 to 2001, and initial public offerings (“IPOs”) during 1996 to 2000. The actions alleged, among other things, that SSB published fraudulent research reports, permitted inappropriate influence by investment bankers over research analysts, and failed to adequately supervise the employees who engaged in those practices. It was also alleged that SSB engaged in improper “spinning” of shares to executives of investment banking clients and failed to maintain policies and procedures reasonably designed to prevent the potential misuse of material non-public information in certain circumstances. Without admitting or denying the findings, SSB consented to: (1) censures by NASD and the NYSE; (2) cease and desist orders in state proceedings prohibiting SSB from violating certain state laws and regulations; (3) a judgment prohibiting SSB from violating certain laws and regulations; (4) certain operational reforms; (5) participating in a voluntary initiative pursuant to which SSB will no longer make allocations of securities in hot IPOs to accounts of executive officers or directors of U.S. public companies; and (6) a payment of \$400 million.

Market-Timing

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.

Auction Rate Securities Settlements

On November 13, 2008, in connection with the settlement of a civil action arising out of an investigation by the U.S. Securities and Exchange Commission (the “Commission”) into CGM’s underwriting, marketing, and sale of auction rate securities (“ARS”). CGM, without admitting or denying the allegations of the Commission’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. (the “Judgment”). Thereafter, on December 11, 2008, the Commission filed its civil action in the federal district court for the Southern District of New York (the “Court”). The Judgment, which was entered on December 23, 2008: (i) permanently enjoined CGM from directly or indirectly violating Section 15(c) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”); (ii) provides that, upon later motion of the Commission, the Court shall 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 Judgment and that CGM comply with all of the undertakings and agreements set forth in the Consent, which include an offer to buy back at par certain ARS from certain customers. The Commission’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 that CGM had represented ARS to be. CGM reached substantially similar settlements with the New York Attorney General (the “NYAG”) and the Texas State Securities Board (the “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: (1) made findings that CGM failed to preserve certain recordings of telephone calls involving the ARS trading desk; and (2) require 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 has 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.

The following settlements relate to activities of Morgan Stanley:

In this section, “MSDW” means Morgan Stanley DW Inc., a predecessor broker-dealer and registered investment adviser that was merged into Morgan Stanley in April 2007.

- The National Association of Securities Dealers Inc. (“NASD”) alleged that, between October 1999 and December 2002, MSDW violated the non-cash compensation provisions of the NASD Conduct Rules (under which MSDW was prohibited from providing its Financial Advisors with non-cash compensation for sales of mutual funds and variable annuities that were not based on total sales and equal weighting). MSDW offered rewards to its Financial Advisors for sales of affiliated mutual funds in general, or particular affiliated mutual funds or certain variable annuities. By a Letter of Acceptance, Waiver and Consent (“LAWC”) dated September 15, 2003, MSDW agreed to: (1) fines totaling \$2.25 million; (2) update its compliance systems and procedures; and (3) retain an independent consultant to review and make recommendations on MSDW’s supervisory and compliance procedures.
- On April 28, 2003, the SEC filed a complaint alleging that Morgan Stanley violated certain NASD and NYSE Conduct Rules (collectively, the “Conduct Rules”) by: creating conflicts of interest for its research analysts with respect to investment banking activity; failing to adequately manage such conflicts; failing to ensure, in offerings where Morgan Stanley was the lead underwriter, that payments made to other broker-dealers for publishing research reports were disclosed by the issuers in the offering documents and the other broker-dealers in their research reports; and failing to supervise properly its research analysts, including with respect to the ratings, price targets and content of the reports of senior research analysts. Without admitting or denying the substantive allegations in the complaint, on October 31, 2003, Morgan Stanley consented to the entry of a final judgment that enjoined Morgan Stanley from violating the Conduct Rules and required it to make payments of \$50 million for past conduct and allocate \$75 million to fund independent research. In addition, Morgan Stanley agreed to a number of structural changes to the operations of its equity research and investment banking operations. Concurrently, Morgan Stanley also entered into a settlement with the NYSE, the NASD, and the Attorney General of the State of New York with respect to the same conduct specified in the Complaint. Morgan Stanley is also in the process of finalizing settlements with the other state and territorial securities administrators.

- The SEC alleged disclosure violations in connection with marketing arrangements between MSDW and certain mutual fund complexes in connection with the offer and sale of Class B shares in certain Morgan Stanley proprietary mutual funds in the amount of \$100,000 or more in a single transaction. The SEC also alleged that receipt of directed brokerage commissions as payment for such marketing arrangements contravened NASD Rule 2830(k). On November 17, 2003, without admitting or denying the findings, MSDW consented to orders including a censure; a cease and desist; and an undertaking to distribute, for the benefit of certain customers, \$50 million, consisting of disgorgement plus prejudgment interest in the amount of \$25 million and a civil penalty of \$25 million. MSDW also made certain other undertakings including: (1) preparing and distributing certain disclosures and a mutual fund bill of rights; (2) permitting certain Class B shares to be converted to Class A shares; and (3) retaining an independent consultant to review, among other things, the completeness of the disclosures and conformity with other aspects of the order.
- In 2004, the NYSE brought an administrative action alleging that Morgan Stanley 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 executing certain sell orders on a minus tick for securities in which Morgan Stanley 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. Morgan Stanley 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, Morgan Stanley violated Regulation M by attempting to induce certain customers who received allocations of IPOs to place purchase orders for additional shares in the aftermarket. No allegation of fraud or impact on the market was made. On January 25, 2005, Morgan Stanley agreed to the entry of a judgment enjoining Morgan Stanley 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, CGM consented to the issuance of an SEC administrative order for two disclosure failures in the offering and selling of mutual fund shares. First, as alleged in the order, CGM violated the Securities Act of 1933 (“Securities Act”) and Rule 10b-10 under the Securities Exchange Act of 1934 (“Exchange Act”) by failing to disclose that it received revenue sharing payments from mutual fund advisers and distributors in exchange for preferential sales treatment. Second, as alleged in the order, CGM violated the Securities Act by failing to disclose adequately, at the point of sale, that Class B mutual fund shares, in amounts aggregating \$50,000 or more, were subject to higher annual fees. Under the terms of the order, the SEC: (1) imposed a censure against CGM; (2) required CGM to cease and desist from committing or causing any violations and any future violations of the applicable provisions; (3) imposed a \$20 million civil penalty against CGM; and (4) required CGM to comply with certain undertakings, such as retaining an independent consultant to conduct a review of CGM’s mutual fund sales practices and offering affected customers the option of converting their Class B shares into Class A shares.
- 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 failed to disclose that it received revenue sharing payments from mutual fund advisers and distributors in exchange for preferential sales treatment and failed to disclose adequately, at the point of sale, that Class B mutual fund shares, in amounts aggregating \$50,000 or more, were subject to higher annual fees. 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 relative period.

The SEC order found that SBFM and CGM willfully violated Section 206(1) of the 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 that 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, and will be distributed pursuant to a plan to be prepared by Citi and submitted within 90 days of the entry of the order for approval by the SEC.

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 an 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, 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 Morgan Stanley violated the Exchange Act by inadvertently failing to timely produce emails to the SEC staff, pursuant to subpoenas, in the SEC’s investigation into Morgan Stanley’s practices in allocating shares of stock in initial public offerings and an investigation into conflicts of interest between Morgan Stanley’s research and investment banking practices. Without admitting or denying the allegations, Morgan Stanley consented to a final judgment on May 12, 2006 in which it was permanently restrained and enjoined from violating the Exchange Act. Morgan Stanley agreed to make payments aggregating \$15 million, which amount was reduced by \$5 million contemporaneously paid by Morgan Stanley to the NASD and the NYSE in related proceedings. Morgan Stanley 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. Morgan Stanley 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 Morgan Stanley 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, Morgan Stanley 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 Morgan Stanley’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. Morgan Stanley 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, Morgan Stanley and MSDW entered into an LAWC relating various finds that, at various times between July 1999 and 2005, Morgan Stanley 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 MSRB rules related to areas including trade reporting through TRACE, short sales, and OATS. The NASD further found that, in certain cases, Morgan Stanley and MSDW violated NASD Rule 3010, because their supervisory systems did not provide supervision reasonably designed to achieve compliance with applicable securities laws, regulations and/or rules.

Without admitting or denying the findings, Morgan Stanley and MSDW consented to the LAWC. In the LAWC, Morgan Stanley 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. Morgan Stanley 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 (the “May 2007 Order”), settling an administrative action with Morgan Stanley. In this matter, the SEC found that Morgan Stanley 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, Morgan Stanley’s proprietary market-making system failed to provide best execution to certain retail OTC orders. In December 2004, Morgan Stanley removed the computer code in the proprietary market-making system that caused the best execution violations. Morgan Stanley 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. Morgan Stanley 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, Morgan Stanley entered into a LAWC with 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. Morgan Stanley agreed, without admitting or denying these findings, to establish a \$9.5 million fund for the benefit of potentially affected arbitration claimants. In addition, Morgan Stanley 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, Morgan Stanley 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, Morgan Stanley 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, Morgan Stanley 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 Morgan Stanley’s applicable policies and procedures. Morgan Stanley consented to the issuance of the October 2007 Order without admitting or denying the SEC’s findings.
- On December 18, 2007, Morgan Stanley 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 (a) failed to reasonably supervise four Financial Advisors, with a view to preventing and detecting their mutual fund market-timing activities and (b) 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, Morgan Stanley 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, Morgan Stanley 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. Morgan Stanley 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. Morgan Stanley settled the state regulatory issues in a multi-state settlement with the 46 affected state and territorial jurisdictions. Under the settlement, Morgan Stanley 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 Office of the New York State Attorney General (“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) 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. has 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 the other NASAA jurisdictions.
- On December 11, 2008, the SEC filed a settled civil court action against CGM arising out of an investigation into ARS. The SEC complaint alleged that CGM misled its clients regarding the fundamental nature of and risks (including illiquidity) associated with ARS that CGM underwrote, marketed and sold. CGM, without admitting or denying the SEC’s allegations, consented to a permanent injunction from directly or indirectly violating Section 15(c) of the Exchange Act, and to comply with a number of undertakings, including: (1) offering to purchase ARS at par from individuals, charities, and small businesses that purchased those ARS from Citi, even if those customers moved their accounts; (2) using its best efforts to provide liquidity solutions for institutional and other customers, including facilitating issuer redemptions, restructurings, and other reasonable means, and not taking advantage of liquidity solutions for its own inventory before making those solutions available to these customers; (3) paying eligible customers who sold their ARS below par the difference between par and the sale price of the ARS; and (4) reimbursing eligible customers for any excess interest costs associated with loans taken out from Citi due to ARS illiquidity. In addition, after the buy-back periods are substantially complete, the SEC may consider imposing a financial penalty against Citi, based on the traditional factors the SEC considers for penalties and based on whether the individual firm has fulfilled its obligations under its settlement agreement. CGM reached substantially similar settlements with the NYAG and

the Texas State Securities Board, agreeing to pay a total of \$100 million to the NYAG and states participating in the North American Securities Administrators Association.

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

BIOGRAPHICAL INFORMATION

The following brief biographical information describes personnel at Morgan Stanley Smith Barney LLC, who are either principal executive officers or who have supervisory responsibility with regard to the investment management and consulting programs described in this brochure. In the brief biographical sketches in this section, references to “Morgan Stanley” may include Morgan Stanley & Co. Incorporated, predecessor companies and affiliates.

Principal Executive Officers

Gregory J. Fleming, born in 1963, is Managing Director and President of MSSB and of the Asset Management business of Morgan Stanley. Since joining Morgan Stanley in 2010, Greg has served as a member of the Firm's Management and Operating Committees, and reports to Morgan Stanley's CEO, James P. Gorman. From 2007 to 2009, Mr. Fleming served as President and COO of Merrill Lynch. From 2003 to 2007, Mr. Fleming served as Executive VP and Co-President of Merrill's Global Markets and Investment Banking Group. Prior to holding these positions Mr. Fleming was COO of Global Investment Banking and co-head of the Global Financial Institutions Group. Mr. Fleming is a former Phi Beta Kappa, summa cum laude graduate in economics from Colgate University, Mr. Fleming received his J.D. from Yale Law school and is a former board member of BlackRock, Inc., a member of the council on Foreign Relations, a director of Colgate University and a member of the Board of Advisors for the Yale Law School Center for the study of Corporate law.

Jim Rosenthal, born in 1953, is the Chief Operating Officer of MSSB and Head of Corporate Strategy for Morgan Stanley; he is also a member of the Firm's Management and Operating Committees. Prior to assuming his current role in January 2010, Mr. Rosenthal was the Head of Firmwide Technology and Operations for Morgan Stanley and the Head of Integration for MSSB. Mr. Rosenthal joined the Firm in 2008 from Tishman Speyer, where he had served as Chief Financial Officer since 2006. Prior to that, he worked at Lehman Brothers from 1999 to 2005, where he was Head of Corporate Strategy and Corporate Development and a member of the Management Committee. Mr. Rosenthal was with McKinsey & Company from 1986 to 1999, where he was a Senior Partner specializing in financial institutions, and Co-Head of the Investment Banking Practice. Mr. Rosenthal has a B.A. degree from Yale and a J.D. degree from Harvard Law School.

Jeff Gelfand, born in 1951, Managing Director, is Chief Financial Officer of MSSB. Previously, he was Director of Finance for Morgan Stanley's Global Wealth Management and Investment Management Groups. Mr. Gelfand joined Morgan Stanley in 2006 as CFO for the Global Wealth Management Group. Prior to joining Morgan Stanley, he served as the CFO for Wachovia Securities, LLC from 2003 to 2006. Prior to this, Mr. Gelfand was with Merrill Lynch & Co., where he held various roles in Finance, including CFO for Merrill's Global Private Client group. He has a B.S. in Chemical Engineering from Cornell University and an M.B.A. in Finance and Accounting from Columbia University.

Anne Cooney, born in 1968, Managing Director, is General Counsel of MSSB. Previously she was the Deputy General Counsel of MSSB and prior to that role was the head of Client Litigation for the Morgan Stanley Global Wealth Management Group. Prior to joining Morgan Stanley, Ms. Cooney worked at Steel Hector and Davis from 1993 through 1999. Ms. Cooney has a B.S. from the University of North Carolina, Chapel Hill and a J.D. (Order of the Coif) from the University of Florida College of Law.

Consulting Group

James Walker, born in 1963, has been a Managing Director and Head of Consulting Group, MSSB since September 2010. Previously, Mr. Walker was a Managing Director and Chief Operating Officer for Investment Strategy and Solutions (consisting of the Consulting Group, Investment Strategy and Research, Investment Products, and Alternative Investments) at MSSB from June 2009. Previously, Mr. Walker was a Managing Director and Director of Finance, Risk, and Strategy for Global Wealth Management Investments at Citi. He joined Citi in November of 2006 as the Chief Operating Officer of Smith Barney's Investment Advisory Services. Prior to joining Citigroup, Mr. Walker was the Chief Administrative Officer at Merrill Lynch Global Private Client group since prior to 2006. Mr. Walker received a B.A. in Economics from the Catholic University of America and was a Sloan Fellow at the Massachusetts Institute of Technology, where he received a S.M. in Management Science. Jim continues as a lecturer at M.I.T. at the Sloan school. He holds the Certified Investment Management Analyst (CIMA) designation.

Matthew P. Knapp, born in 1970, has been an Executive Director and the CCO of the Advisory Compliance Group for MSSB since June 2009. Previously, Mr. Knapp was the Director for the Advisory Compliance Group of Morgan Stanley's Global Wealth Management Group and CCO of the investment advisory businesses at Morgan Stanley. Mr. Knapp joined Morgan Stanley in 1994 in the Annuity and Insurance Services Division. In 1998, he joined the Legal and Compliance Division. From 2005 to 2006, Mr. Knapp was a Senior Vice President at Citigroup Corporate and Investment Bank. Mr. Knapp received his B.A. from Manhattan College and is a FINRA General Securities Representative.

Carl Swanson, born in 1967, is a Managing Director and has been an Executive Director and the Director of the Portfolio Management and Custom Portfolio groups for MSSB since June 2009. Previously, Mr. Swanson was an Executive Director and Director of the Custom Portfolio Group of Morgan Stanley; in this capacity, he was responsible for overall administration of the Custom Portfolio program. Mr. Swanson joined Morgan Stanley in 2000. Prior to doing so, Mr. Swanson spent nine years at Salomon Smith Barney. For the first four years, he was an Investment Management Analyst in its Consulting Group, and the last five years he was the Marketing and Sales Director for that firm's Portfolio Management Group. Mr. Swanson received a B.S. degree in Economics and Finance from West Chester University.

Rosalie F. Berman, born in 1975, is an Executive Director and the Chief Administrative Officer of Consulting Group. Ms. Berman has also been the Director of Smith Barney Advisor and Morgan Stanley Advisory for MSSB since June 2009. Previously, Ms. Berman was a Director of CGM and the Director of Smith Barney Advisor. Ms. Berman joined CGM (or its predecessor firms) in 1999. Ms. Berman received her B.S. from Tufts University.

Roger Paradiso, born in 1966, has been a Managing Director and the Director of the MSSB Private Portfolio Group and Chief Investment Officer of MSSB since June 2009. Previously, Mr. Paradiso was a Managing Director at CGM and President and Chief Investment Officer of the Private Portfolios Group as a division of CGM. From 2007 to April 2008, he was the President and Chief Investment Officer of Legg Mason Private Portfolio Group, LLC ("LMPPG"). Prior to joining LMPPG, he was a Portfolio Manager and Managing Director of ClearBridge, which he joined in December 2005. Prior to December 2005, Mr. Paradiso was a Managing Director of CGM and served as a Portfolio Manager of Smith Barney Asset Management, a division of CGM. He joined CGM's predecessor in 1988. Mr. Paradiso received a B.S. in Finance from Long Island University.

Glenn Regan, born in 1965, is a Managing Director and the Director of Global Investment Solutions. Previously, Mr. Regan was the Director of the Consulting Group Investment Advisor Research for MSSB since June 2009. Previously, Mr. Regan was a Managing Director of CGM, Head of Investment Advisor Research for the Global Wealth Management sector of Citi, and Chief Investment Officer of Smith Barney's Consulting Group. He had been with CGM or its predecessor firms since 1987. Mr. Regan received a B.S. in Business Administration from Syracuse University School of Management. Mr. Regan is a charter holder of the CFA designation.

DEPARTMENT OF LABOR PROHIBITED TRANSACTION EXEMPTION

Employee Benefits Security Administration

DEPARTMENT OF LABOR

Employee Benefits Security Administration

Application Nos. and Proposed Exemptions; D-11573, Citigroup Global Markets, Inc. and Its Affiliates (Together, CGMI or the Applicant)

AGENCY: Employee Benefits Security Administration, Labor

ACTION: Notice of proposed exemptions.

SUMMARY: This document contains notices of pendency before the Department of Labor (the Department) of proposed exemptions from certain of the prohibited transaction restrictions of the Employee Retirement Income Security Act of 1974 (ERISA or the Act) and/or the Internal Revenue Code of 1986 (the Code).

Written Comments and Hearing Requests

All interested persons are invited to submit written comments or requests for a hearing on the pending exemptions, unless otherwise stated in the Notice of Proposed Exemption, within 45 days from the date of publication of this Federal Register Notice. Comments and requests for a hearing should state: (1) The name, address, and telephone number of the person making the comment or request, and (2) the nature of the person's interest in the exemption and the manner in which the person would be adversely affected by the exemption. A request for a hearing must also state the issues to be addressed and include a general description of the evidence to be presented at the hearing.

ADDRESSES: All written comments and requests for a hearing (at least three copies) should be sent to the Employee Benefits Security Administration (EBSA), Office of Exemption Determinations, Room N-5700, U.S. Department of Labor, 200 Constitution Avenue, NW., Washington, DC 20210. Attention: Application No. ----, stated in each Notice of Proposed Exemption. Interested persons are also invited to submit comments and/or hearing requests to EBSA via e-mail or FAX. Any such comments or requests should be sent either by e-mail to: moffitt.betty@dol.gov, or by FAX to (202) 219-0204 by the end of the scheduled comment period. The applications for exemption and the comments received will be available for public inspection in the Public Documents Room of the Employee Benefits Security Administration, U.S. Department of Labor, Room N-1513, 200 Constitution Avenue, NW., Washington, DC 20210.

Warning: If you submit written comments or hearing requests, do not include any personally-identifiable or confidential business information that you do not want to be publicly-disclosed. All comments and hearing requests are posted on the Internet exactly as they are received, and they can be retrieved by most Internet search engines. The Department will make no deletions, modifications or redactions to the comments or hearing requests received, as they are public records.

Notice to Interested Persons

Notice of the proposed exemptions will be provided to all interested persons in the manner agreed upon by the applicant and the Department within 15 days of the date of publication in the Federal Register. Such notice shall include a copy of the notice of proposed exemption as published in the Federal Register and shall inform interested persons of their right to comment and to request a hearing (where appropriate).

SUPPLEMENTARY INFORMATION: The proposed exemptions were requested in applications filed pursuant to section 408(a) of the Act and/or section 4975(c)(2) of the Code, and in accordance with procedures set forth in 29 CFR Part 2570, Subpart B (55 FR 32836, 32847, August 10, 1990). Effective December 31, 1978, section 102 of Reorganization Plan No. 4 of 1978, 5 U.S.C. App. 1 (1996), transferred the authority of the Secretary of the Treasury to issue exemptions of the type requested to the Secretary of Labor. Therefore, these notices of proposed exemption are issued solely by the Department. The applications contain representations with regard to the proposed exemptions which are summarized below. Interested persons are referred to the applications on file with the Department for a complete statement of the facts and representations.

Citigroup Global Markets, Inc. and Its Affiliates (Together, CGMI or the Applicant) Located in New York, New York

[Application No. D-11573]

Proposed Exemption

The Department is considering granting an exemption under the authority of section 408(a) of the Act (or ERISA) and section 4975(c)(2) of the Code and in accordance with the procedures set forth in 29 CFR Part 2570, Subpart B (55 FR 32836, August 10, 1990).

Section I. Covered Transactions

A. If the exemption is granted, the restrictions of section 406(a) of the Act and the sanctions resulting from the application of section 4975 of the Code, by reason of section 4975(c)(1)(A) through (D) of the Code, shall not apply, effective May 31, 2009, to the purchase or redemption of shares by an employee benefit plan, an individual retirement account (an IRA), a retirement plan for self-employed individuals (a Keogh Plan), or an individual account pension plan that is subject to the provisions of Title I of the Act and established under section 403(b) of the Code (the Section 403(b) Plan) (collectively, the Plans) in the Trust for Consulting Group Capital Markets Funds (the Trust), sponsored by MSSB in connection with such Plans' participation in the TRAK Personalized Investment Advisory Service (the TRAK Program).

B. If the exemption is granted, the restrictions of section 406(b) of the Act and the sanctions resulting from the application of section 4975 of the Code, by reason of section 4975(c)(1)(E) and (F) of the Code, shall not apply, effective May 31, 2009, with respect to the provision of (i) investment advisory services by the Adviser or (ii) an automatic reallocation option as described below (the Automatic Reallocation Option) to an independent fiduciary of a participating Plan (the Independent Plan Fiduciary), which may result in such fiduciary's selection of a portfolio (the Portfolio)⁸ in the TRAK Program for the investment of Plan assets.

This exemption is subject to the following conditions set forth below in Section II.

Section II. General Conditions

- (a) The participation of Plans in the TRAK Program is
- (b) approved by an Independent Plan Fiduciary. For purposes of this requirement, an employee, officer or director of the Adviser and/or its affiliates covered by an IRA not subject to Title I of the Act will be considered an Independent Plan Fiduciary with respect to such IRA.
- (c) The total fees paid to the Adviser and its affiliates will constitute no more than reasonable compensation.
- (d) No Plan pays a fee or commission by reason of the acquisition or redemption of shares in the Trust.
- (e) The terms of each purchase or redemption of Trust shares remain at least as favorable to an investing Plan as those obtainable in an arm's length transaction with an unrelated party.
- (f) The Adviser provides written documentation to an Independent Plan Fiduciary of its recommendations or evaluations based upon objective criteria.

⁸ For the avoidance of doubt, unless the context suggests otherwise, the term ``Portfolio'' includes the Stable Value Investments Fund, a collective trust fund established and maintained by First State Trust Company, formerly a wholly-owned subsidiary of Citigroup.

(g) Any recommendation or evaluation made by the Adviser to an Independent Plan Fiduciary is implemented only at the express direction of such Independent Plan Fiduciary, provided, however, that:

(1) If such Independent Plan Fiduciary elects in writing (the Election), on a form designated by the Adviser from time to time for such purpose, to participate in the Automatic Reallocation Option under the TRAK Program, the affected Plan or participant account is automatically reallocated whenever the Adviser modifies the particular asset allocation recommendation which the Independent Plan Fiduciary has chosen. Such Election continues in effect until revoked or terminated by the Independent Plan Fiduciary in writing.

(2) Except as set forth below in paragraph II(f)(3), at the time of a change in the Adviser's asset allocation recommendation, each account based upon the asset allocation model (the Allocation Model) affected by such change is adjusted on the business day of the release of the new Allocation Model by the Adviser, except to the extent that market conditions, and order purchase and redemption procedures, may delay such processing through a series of purchase and redemption transactions to shift assets among the affected Portfolios.

(3) If the change in the Adviser's asset allocation recommendation exceeds an increase or decrease of more than 10 percent in the absolute percentage allocated to any one investment medium (e.g., a suggested increase in a 15 percent allocation to greater than 25 percent, or a decrease of such 15 percent allocation to less than 5 percent), the Adviser sends out a written notice (the Notice) to all Independent Plan Fiduciaries whose current investment allocation may be affected, describing the proposed reallocation and the date on which such allocation is to be instituted (the Effective Date). If the Independent Plan Fiduciary notifies the Adviser, in writing, at any time within the period of 30 calendar days prior to the proposed Effective Date that such fiduciary does not wish to follow such revised asset allocation recommendation, the Allocation Model remains at the current level, or at such other level as the Independent Plan Fiduciary then expressly designated, in writing. If the Independent Plan Fiduciary does not affirmatively 'opt out' of the new Adviser recommendation, in writing, prior to the proposed Effective Date, such new recommendation is automatically effected by a dollar-for-dollar liquidation and purchase of the required amounts in the respective account.

(4) An Independent Plan Fiduciary will receive a trade confirmation of each reallocation transaction. In this regard, for all Plan investors other than Section 404(c) Plan accounts (i.e., 401(k) Plan accounts), CGMI or MSSB, as applicable, mails trade confirmations on the next business day after the reallocation trades are executed. In the case of Section 404(c) Plan participants, notification depends upon the notification provisions agreed to by the Plan recordkeeper.

(h) The Adviser generally gives investment advice in writing to an Independent Plan Fiduciary with respect to all available Portfolios. However, in the case of a Plan providing for participant-directed investments (the Section 404(c) Plan), the Adviser provides investment advice that is limited to the Portfolios made available under the Plan.

(i) Any sub-adviser (the Sub-Adviser) that acts for the Trust to exercise investment discretion over a Portfolio is independent of Morgan Stanley, Inc. (Morgan Stanley), CGMI, MSSB and their respective affiliates (collectively, the Affiliated Entities).

(j) Immediately following the acquisition by a Portfolio of any securities that are issued by any Affiliated Entity, such as Citigroup or Morgan Stanley common stock (the Adviser Common Stock), the percentage of that Portfolio's net assets invested in such securities will not exceed one percent. However, this percentage limitation may be exceeded if--

(1) The amount held by a Sub-Adviser in managing a Portfolio is held in order to replicate an established third-party index (the Index).

(2) The Index represents the investment performance of a specific segment of the public market for equity securities in the United States and/or foreign countries. The organization creating the Index is:

(i) Engaged in the business of providing financial information;

(ii) A publisher of financial news information; or

(iii) A public stock exchange or association of securities dealers. The Index is created and maintained by an organization independent of the Affiliated Entities and is a generally-accepted standardized Index of securities which is not specifically tailored for use by the Affiliated Entities.

(3) The acquisition or disposition of Adviser Common Stock does not include any agreement, arrangement or understanding regarding the design or operation of the Portfolio acquiring such Adviser Common Stock, which is intended to benefit the Affiliated Entities or any party in which any of the Affiliated Entities may have an interest.

(4) The Independent Plan Fiduciary authorizes the investment of a Plan's assets in an Index Fund which purchases and/or holds the Adviser Common Stock and the Sub-Adviser is responsible for voting any shares of Adviser Common Stock that are held by an Index Fund on any matter in which shareholders of Adviser Common Stock are required or permitted to vote.

(k) The quarterly investment advisory fee that is paid by a Plan to the Adviser for investment advisory services rendered to such Plan is offset by any amount in excess of 20 basis points that MSSB retains from any Portfolio (with the exception of the Money Market Investments Portfolio and the Stable Value Investments Portfolio for which neither MSSB nor the Trust will retain any investment management fee) which contains investments attributable to the Plan investor.

(l) With respect to its participation in the TRAK Program prior to purchasing Trust shares,

(1) Each Plan receives the following written or oral disclosures from the Adviser:

(A) A copy of the Prospectus for the Trust discussing the investment objectives of the Portfolios comprising the Trust, the policies employed to achieve these objectives, the corporate affiliation existing among the Adviser and its affiliates, and the compensation paid to such entities.⁹

(B) Upon written or oral request to the Adviser, a Statement of Additional Information supplementing the Prospectus which describes the types of securities and other instruments in which the Portfolios may invest, the investment policies and strategies that the Portfolios may utilize and certain risks attendant to those investments, policies and strategies.

(C) A copy of the investment advisory agreement between the Adviser and such Plan which relates to participation in the TRAK Program and describes the Automatic Reallocation Option.

(D) Upon written request of the Adviser, a copy of the respective investment advisory agreement between MSSB and the Sub-Advisers.

(E) In the case of a Section 404(c) Plan, if required by the arrangement negotiated between the Adviser and the Plan, an explanation by an Adviser representative (the Financial Advisor) to eligible participants in such Plan, of the services offered under the TRAK Program and the operation and objectives of the Portfolios.

(F) A copy of the proposed exemption and the final exemption pertaining to the exemptive relief described herein.

(2) If accepted as an investor in the TRAK Program, an Independent Plan Fiduciary of an IRA or Keogh Plan is required to acknowledge, in writing, prior to purchasing Trust shares that such fiduciary has received copies of the documents described above in subparagraph (k)(1) of this section.

(3) With respect to a Section 404(c) Plan, written acknowledgement of the receipt of such documents is provided by the Independent Plan Fiduciary (i.e., the Plan administrator, trustee or named fiduciary, as the recordholder of Trust shares). Such Independent Plan Fiduciary is required to represent in writing to the Adviser that such fiduciary is (a) independent of the Affiliated Entities and (b) knowledgeable with respect to the Plan in administrative matters and funding matters related thereto, and able to make an informed decision concerning participation in the TRAK Program.

(4) With respect to a Plan that is covered under Title I of the Act, where investment decisions are made by a trustee, investment manager or a named fiduciary, such Independent Plan Fiduciary is required to acknowledge, in writing, receipt of such documents and represent to the Adviser that such fiduciary is (a) independent of the Affiliated Entities, (b) capable of making an independent decision regarding the investment of Plan assets and (c) knowledgeable with respect to the Plan in administrative matters and funding matters related thereto, and able to make an informed decision concerning participation in the TRAK Program.

(m) Subsequent to its participation in the TRAK Program, each Plan receives the following written or oral disclosures with respect to its ongoing participation in the TRAK Program:

(1) The Trust's semi-annual and annual report including a financial statement for the Trust and investment management fees paid by each Portfolio.

(2) A written quarterly monitoring statement containing an analysis and an evaluation of a Plan investor's account to ascertain whether the Plan's investment objectives have been met and recommending, if required, changes in Portfolio allocations.

(3) If required by the arrangement negotiated between the Adviser and a Section 404(c) Plan, a quarterly, detailed investment performance monitoring report, in writing, provided to an Independent Plan Fiduciary of such Plan showing Plan level asset allocations, Plan cash flow analysis and annualized risk adjusted rates of return for Plan investments. In addition, if required by such arrangement, Financial Advisors meet periodically with Independent Plan Fiduciaries of Section 404(c) Plans to discuss the report as well as with eligible participants to review their accounts' performance.

⁹ The fact that certain transactions and fee arrangements are the subject of an administrative exemption does not relieve the Independent Plan Fiduciary from the general fiduciary responsibility provisions of section 404 of the Act. In this regard, the Department expects the Independent Plan Fiduciary to consider carefully the totality of the fees and expenses to be paid by the Plan, including any fees paid directly to MSSB, CGMI or to other third parties.

- (4) If required by the arrangement negotiated between the Adviser and a Section 404(c) Plan, a quarterly participant performance monitoring report provided to a Plan participant which accompanies the participant's benefit statement and describes the investment performance of the Portfolios, the investment performance of the participant's individual investment in the TRAK Program, and gives market commentary and toll-free numbers that enable the participant to obtain more information about the TRAK Program or to amend his or her investment allocations.
- (5) On a quarterly and annual basis, written disclosures to all Plans of (a) the percentage of each Portfolio's brokerage commissions that are paid to the Affiliated Entities and (b) the average brokerage commission per share paid by each Portfolio to the Affiliated Entities, as compared to the average brokerage commission per share paid by the Trust to brokers other than the Affiliated Entities, both expressed as cents per share.
- (n) The Adviser maintains or causes to be maintained, for a period of (6) six years, the records necessary to enable the persons described in paragraph (m)(1) of this section to determine whether the applicable conditions of this exemption have been met. Such records are readily available to assure accessibility by the persons identified in paragraph (1) of this section.
 - (1) Notwithstanding any provisions of section 504(a)(2) and (b) of the Act, the records referred to in the first paragraph of this section are unconditionally available at their customary location for examination during normal business hours by--
 - (i) Any duly authorized employee or representative of the Department or the Internal Revenue Service;
 - (ii) Any fiduciary of a participating Plan or any duly authorized representative of such fiduciary;
 - (iii) Any contributing employer to any participating Plan or any duly authorized employee representative of such employer; and
 - (iv) Any participant or beneficiary of any participating Plan, or any duly authorized representative of such participant or beneficiary.
 - (2) A prohibited transaction is not deemed to have occurred if, due to circumstances beyond the control of the Adviser, the records are lost or destroyed prior to the end of the six-year period, and no party in interest other than the Adviser is subject to the civil penalty that may be assessed under section 502(i) of the Act or to the taxes imposed by sections 4975(a) and (b) of the Code if the records are not maintained or are not available for examination as required by paragraph (1) of this section.
 - (3) None of the persons described in subparagraphs (ii)-(iv) of this section (m)(1) is authorized to examine the trade secrets of the Adviser or commercial or financial information which is privileged or confidential.
 - (4) Should the Adviser refuse to disclose information on the basis that such information is exempt from disclosure, the Adviser shall, by the close of the thirtieth (30th) day following the request, provide written notice advising that person of the reason for the refusal and that the Department may request such information.

Section III. Definitions

For purposes of this proposed exemption:

- (a) The term ``Adviser'' means CGMI or MSSB as investment adviser to Plans.
- (b) The term ``Affiliated Entities'' means Morgan Stanley, CGMI, MSSB and their respective affiliates.
- (c) The term ``CGMI'' means Citigroup Global Markets Inc. and any affiliate of Citigroup Global Markets Inc.
- (d) An ``affiliate'' of any of the Affiliated Entities includes:
 - (1) Any person directly or indirectly through one or more intermediaries, controlling, controlled by, or under common control with the Affiliated Entity. (For purposes of this subparagraph, the term ``control'' means the power to exercise a controlling influence over the management or policies of a person other than an individual);
 - (2) Any individual who is an officer (as defined in Section III(g) hereof), director or partner in the Affiliated Entity or a person described in subparagraph (d)(1);
 - (3) Any corporation or partnership of which the Affiliated Entity, or an affiliate described in subparagraph (d)(1), is a 10 percent or more partner or owner; and
 - (4) Any corporation or partnership of which any individual which is an officer or director of the Affiliated Entity is a 10 percent or more partner or owner.
- (e) An ``Independent Plan Fiduciary'' is a Plan fiduciary which is independent of the Affiliated Entities and is either:
 - (1) A Plan administrator, sponsor, trustee or named fiduciary, as the recordholder of Trust shares under a Section 404(c) Plan;
 - (2) A participant in a Keogh Plan;
 - (3) An individual covered under (i) a self-directed IRA or (ii) a Section 403(b) Plan, which invests in Trust shares;
 - (4) A trustee, investment manager or named fiduciary responsible for investment decisions in the case of a Title I Plan that does not permit individual direction as contemplated by Section 404(c) of the Act; or

(5) A participant in a Plan, such as a Section 404(c) Plan, who is permitted under the terms of such Plan to direct, and who elects to direct, the investment of assets of his or her account in such Plan.

(f) The term ``MSSB'' means Morgan Stanley Smith Barney Holdings LLC, together with its subsidiaries.

(g) The term ``officer'' means a president, any vice president in charge of a principal business unit, division or function (such as sales, administration or finance), or any other officer who performs a policymaking function for the entity.

Section IV. Effective Date

If granted, this proposed exemption will be effective as of May 31, 2009 with respect to the Covered Transactions, the General Conditions and the Definitions that are described in Sections I, II and III.

Summary of Facts and Representations

1. If granted, the proposed individual exemption described herein would replace Prohibited Transaction Exemption (PTE) 2009-12 (74 FR 13231, March 26, 2009), an exemption previously granted to CGMI. PTE 2009-12 relates to the operation of the TRAK Personalized Investment Advisory Service (the TRAK Program) and the Trust for Consulting Group Capital Markets Funds (the Trust). PTE 2009-12 provides exemptive relief from section 406(a) of the Act and section 4975(c)(1)(A) through (D) of the Code, for the purchase or redemption of shares by various types of Plans, such as ERISA Title I Plans, IRAs, Keogh Plans, and Section 403(b) Plans, whose assets are invested in the Trust that was previously established by Citigroup in connection with such Plans' participation in the TRAK Program. PTE 2009-12 also provides exemptive relief from section 406(b) of the Act and section 4975(c)(1)(E) and (F) of the Code, with respect to the provision, by Citigroup's Consulting Group, of (i) investment advisory services or (ii) an Automatic Reallocation Option to an independent fiduciary of a participating Plan (i.e., the Independent Plan Fiduciary), which may result in such fiduciary's selection of a Portfolio¹⁰ in the TRAK Program for the investment of Plan assets.

2. The Department originally granted to Shearson Lehman Brothers, Inc. PTE 92-77, which relates to a less evolved form of the TRAK Program.¹¹ PTE 92-77 was superseded by PTE 94-50, which allowed Smith, Barney Inc. (Smith Barney), the predecessor to Salomon Smith Barney Inc. (Salomon Smith Barney), to add a daily-traded collective investment fund (the GIC Fund) to the existing fund Portfolios, describe the various entities operating the GIC Fund, and replace references to Shearson Lehman with Smith Barney.¹² PTE 99-15, which superseded PTE 94-50, allowed Salomon Smith Barney to create a broader distribution of TRAK-related products, implement a record-keeping reimbursement offset procedure under the TRAK Program, adopt the Automated Reallocation Option under the TRAK Program that would reduce the asset allocation fee paid to Salomon Smith Barney by a Plan investor, and expand the scope of the exemption to include Section 403(b) Plans.¹³

3. Thereafter, PTE 99-15 was replaced by PTE 2000-45, which primarily modified the definition of an ``affiliate'' of Salomon Smith Barney so that it only covered persons or entities that had a significant role in the decisions made by, or which were managed or influenced by, Salomon Smith Barney, or included any corporation or partnership of which Salomon Smith Barney or an affiliate was a 10 percent or more partner or owner.¹⁴

4. Finally, on March 26, 2009, the Department granted PTE 2009-12. As the result of a merger transaction (the Merger Transaction) between Citigroup and Legg Mason, Inc. (Legg Mason), on December 1, 2005, an affiliate of Citigroup acquired an approximately 14% equity ownership interest in Legg Mason common and preferred stock. This meant that two investment adviser subsidiaries of Legg Mason (Brandywine Asset Management LLC and Western Asset Management Company), which were sub-advisers (the Sub-Advisers) to three Trust Portfolios under the TRAK Program, were no longer considered ``independent'' of Citigroup and its affiliates in violation of Section II(h) of the General Conditions.¹⁵ Also, the Sub-Advisers were considered ``affiliates'' of Citigroup under Section

¹⁰ For the avoidance of doubt, unless the context suggests otherwise, the term ``Portfolio'' includes the Stable Value Investments Fund, a collective trust fund established and maintained by First State Trust Company (First State), formerly a wholly-owned subsidiary of Citigroup.

¹¹ 57 FR 45833 (October 5, 1992).

¹² 59 FR 32024 (June 21, 1994).

¹³ 64 FR 1648 (April 5, 1999).

¹⁴ 65 FR 54315 (September 7, 2000).

¹⁵ In PTE 2000-45, Section II(h) of the General Conditions provided that ``Any sub-adviser (the Sub-Adviser) that acts for the Trust to exercise investment discretion over a Portfolio will be independent of Salomon Smith Barney and its affiliates.''

III(b)(3) of the General Definitions of PTE 2000-45 inasmuch as Citigroup became a 10% or more indirect owner of each Sub-Adviser following the Merger Transaction.

5. Although Citigroup reduced its ownership interest in Legg Mason to under the 10% ownership threshold on March 10, 2006, the Department decided that PTE 2000-45 was no longer effective for the transactions described therein, because Section II(h) of the General Conditions and Section III(b) of the Definitions were not met. Therefore, the Department granted PTE 2009-12, a new exemption, which replaced PTE 2000-45. Unless otherwise noted, PTE 2009-12 incorporates by reference the facts, representations, operative language and definitions of PTE 2000-45. In addition, PTE 2009-12 updates the operative language of PTE 2000-45. Further, PTE 2009-12 provides a temporary and limited exception to the definition of the term ``affiliate," so that during the three month period of time within which Citigroup held a 10% or greater economic ownership interest in Legg Mason, the Sub-Advisers would continue to be considered ``independent" of CGMI and its affiliates for purposes of Section II(h) and not ``affiliated" with CGMI and its affiliates for purposes of Section III(b) of the exemption. Finally, PTE 2009-12 provides exemptive relief for a new method to compute fee offsets that are required under the exemption to mitigate past anomalies. PTE 2009-12 is effective from December 1, 2005 until March 10, 2006, with respect to the limited exception. It is also effective as of December 1, 2005 with respect to the transactions covered by the exemption, the General Conditions, and the Definitions. Further, PTE 2009-12 is effective as of January 1, 2008, with respect to the new fee offset procedure.

Replacement of PTE 2009-12

6. CGMI and its predecessors and current and future affiliates and Morgan Stanley Smith Barney LLC and its current and future affiliates (collectively, the Applicants) have requested a new exemption that would replace PTE 2009-12 to reflect the terms of a joint venture transaction (the Joint Venture Transaction) between Citigroup and Morgan Stanley, Inc. (Morgan Stanley) that occurred on May 31, 2009. As a result of the Joint Venture Transaction, which is described in detail below, the Applicants state that the exemptive relief provided under PTE 2009-12 is no longer effective due to a change in the parties and the ownership structure of the TRAK Program. Therefore, the Applicants request a new exemption that would replace PTE 2009-12. If granted, the new exemption would be made retroactive to May 31, 2009 and it would provide the same relief with respect to the transactions covered under PTE 2009-12. In addition, the General Conditions and Definitions of the new exemption would be similar to those as set forth in PTE 2009-12.

The Joint Venture Transaction

7. The Applicants represent that on January 13, 2009, Citigroup and Morgan Stanley entered into a ``Joint Venture Contribution and Formation Agreement" (the Joint Venture Agreement), which established the terms of a new joint venture (the Joint Venture) between Citigroup and Morgan Stanley. Citigroup and Morgan Stanley are global financial services providers, each headquartered in New York, New York. As of the end of 2008, Citigroup reported total client assets under management as approximately \$1.3 trillion. Citigroup's current employee workforce consists of approximately 300,000 individuals in approximately 16,000 offices in 140 countries around the world. As of the end of 2008, Morgan Stanley reported total client assets under management as approximately \$546 billion. Its current employee workforce of approximately 60,000 serves a diversified group of corporations, governments, financial institutions, and individuals, and operates from over 1,200 offices in over 36 countries around the world.

8. Under the Joint Venture Agreement, each of Citigroup and Morgan Stanley (including their respective subsidiaries) agreed to contribute specified businesses into the Joint Venture, together with all contracts, employees, property licenses and other assets (as well as liabilities) used primarily in the contributed businesses. Generally, in the case of Citigroup, the contributed businesses included Citigroup's retail brokerage and futures business operated under the name ``Smith Barney" in the United States and Australia and operated under the name ``Quilter" in the United Kingdom, Ireland and Channel Islands. Certain investment advisory and other businesses of Citigroup were also contributed, including Citigroup's Consulting Group and the sponsorship of the TRAK Program. In the case of Morgan Stanley, the contributed businesses consisted generally of Morgan Stanley's global wealth management (retail brokerage) and private wealth management businesses. According to the Applicants, no valuations for the contributed businesses were agreed upon between the parties. It was agreed, however, that the value of the Smith Barney business plus \$2.75 billion would equal an ownership percentage of 49% of the Joint Venture entity, Morgan Stanley Smith Barney Holdings LLC (Holdings), a Delaware limited liability company (together with its subsidiaries, MSSB). The closing date of the Joint Venture Transaction occurred on May 31, 2009 (the Closing). Prior to the Closing, Morgan Stanley had formed Holdings, the sole member of Morgan Stanley Smith Barney LLC, which conducts most of the Joint Venture's domestic operations as a dual-registered broker-dealer

and investment adviser. Holdings presently generates about \$14 billion in net revenues. It has 18,500 financial advisers, 1,000 locations worldwide and services about 6.8 million households. Immediately following the Closing, Morgan Stanley owned indirectly through subsidiaries 51% of Holdings, and Citigroup owned 49% of Holdings, through CGMI. Morgan Stanley has call rights to purchase from Citigroup (a) an additional 14% of Holdings after the third anniversary of Closing, (b) an additional 15% of Holdings after the fourth anniversary and (c) the balance of Citigroup's interest in Holdings after the fifth anniversary.¹⁶

9. The Joint Venture Agreement was amended and restated on May 29, 2009 (the Amended Contribution Agreement). Under the Amended Contribution Agreement, Citigroup transferred its managed futures business and its proprietary investments to MSSB on July 31, 2009, in exchange for a cash payment of \$299.778 million paid by Morgan Stanley, and Morgan Stanley purchased additional interests in MSSB worth approximately \$2.7 billion on August 1, 2009, in order to maintain its total percentage of ownership interests in MSSB at 51%. The Amended Contribution Agreement also provided for an "introducing broker" structure for a period of time after the Closing. Under the "introducing broker" structure, clients of Morgan Stanley's legacy businesses continue to have their brokerage transactions cleared through, and their accounts custodied and carried by, Morgan Stanley.¹⁷ Similarly, customers of the Citigroup legacy businesses continue to have their brokerage transactions cleared through, and have their accounts custodied and carried by, CGMI.¹⁸ Over time, it is expected that the contributed businesses and operations of Morgan Stanley and Citigroup will be integrated into one operation and that ultimately, MSSB will become a fully self-clearing and self-custody service firm and will carry its own customer accounts.

Current Status of Operations

10. Since the Closing, MSSB's advisory services are being provided through two distribution channels. One distribution channel generally sponsors the advisory programs, including the TRAK Program, previously sponsored by Smith Barney and/or CGMI (the SB Channel). Therefore, since the Closing, the TRAK Program has continued to be made available to customers of the SB Channel. The other distribution channel generally sponsors the advisory programs previously sponsored by Morgan Stanley's Global Wealth Management Group (the MS Channel). As stated previously, the parties' ultimate goal is for the businesses, operations and systems of the MS Channel and the SB Channel to be integrated. However, decisions as to which programs will be offered to whom or which programs will survive over the long-term have not been made.

11. Also, since the Closing, CGMI has continued to offer the TRAK Program to its retained clients. As of August 31, 2009, the TRAK Program had assets in excess of \$6.13 billion, over \$3.74 billion of which is held in Plan accounts. At present, the investments under the TRAK Program encompass the Trust, which consists of eleven Portfolios, as well as the Stable Value Investments Fund, a collective trust fund established and maintained by First State. The Trust and the Stable Value Investment Fund are advised by one or more unaffiliated Sub-Advisers selected by MSSB and First State, respectively. In addition to the TRAK Program, CGMI offers other investment advisory programs to its retained clients under an advisory services agreement between Citigroup and Holdings dated as of the Closing. Under the agreement, Holdings provides a wide range of investment advisory services to Citigroup advisory programs pursuant to a delegation by Citigroup to Holdings of certain of Citigroup's obligations to provide such services. Citigroup retained clients were provided notice of this arrangement.

Descriptions of Revisions to the Operative Language of PTE 2009-12

12. The proposed exemption generally modifies the operative language of PTE 2009-12 to take into account the new ownership structure of the TRAK Program formed as a result of the Joint Venture Transaction. Section I of PTE 2009-12 has been modified to conform the effective date of the proposal with the closing of the Joint Venture Transaction, May 31, 2009. In addition, the operative language in Section I(A) and I(B) has been revised to provide that, as a result of the Joint Venture, MSSB rather than Citigroup is now the sponsor of the Trust in connection with

¹⁶ The Applicants believe that Citigroup's ownership interest in MSSB will reach a point where it will no longer have an interest in MSSB or the Trust that could affect its best judgment as a fiduciary. The Applicants explain that at such point in time, it will no longer be necessary for Citigroup to rely on this exemption for the TRAK Program. The Department expresses no opinion on when it will no longer be necessary for Citigroup to rely on this exemption, given that this will be a facts and circumstances determination.

¹⁷ Morgan Stanley continues to provide an array of services for these accounts which include clearing and settling securities transactions, providing trade confirmations and customer statements and performing certain cashiering functions, custody services and other related services.

¹⁸ CGMI clears and settles securities transactions, provides trade confirmations and customer statements and performs certain cashiering functions, custody services and other related services for these accounts.

Plans' investment in the TRAK Program, and that investment advisory services may be provided by MSSB in addition to CGMI, respectively.

13. Section II of PTE 2009-12, General Conditions, has been modified throughout by replacing the terms ``CGMI," ``Consulting Group," or ``Citigroup," with the term ``Adviser," which has been added as a new defined term in Section III to mean ``CGMI or MSSB as investment adviser to Plans." The changes were made to these terms in order to reflect the addition of MSSB as a sponsor of the TRAK Program resulting from the Joint Venture Transaction. In addition, in Section II(h), the term ``Affiliated Entities," which has been added as a new defined term in Section III to mean ``Morgan Stanley, CGMI, MSSB, and their respective affiliates," has been added to take into account the addition of MSSB as a sponsor of the TRAK Program.

14. Section II(j) of PTE 2009-12 has been modified to reflect the fact that CGMI has been removed from the reallocation formula because it no longer manages and supervises the Trust and the Portfolios. Prior to the Closing, Citigroup Investment Advisory Services LLC (CIAS), an affiliate of CGMI, managed and supervised the Trust and Portfolios. In connection with the Joint Venture Transactions, CIAS was contributed to MSSB and as an affiliate of MSSB, it manages and supervises the Trust and the Portfolios. Thus, the modifications to the language in Section II(j) seek to clarify the parties to the covered transactions, but do not change the formula for the calculation of the quarterly investment advisory fee that is paid by the Plan to the Adviser. Furthermore, Section II(j) has been amended to correct the names of the Portfolios that are excluded from the calculation of the quarterly investment advisory fee, namely by substituting the term ``Money Markets Investment Portfolio" for ``Government Money Investments Portfolio," and the term ``Stable Value Investments Portfolio" for ``GIC Fund."

15. Section III of PTE 2009-12, which sets forth the Definitions, has been modified by: (i) Adding Section III(a), Adviser, to mean ``CGMI or MSSB as investment adviser to Plans" to reflect the new sponsorship of the TRAK Program by MSSB, in addition to the previous sponsorship by CGMI; (ii) adding Section III(b), Affiliated Entities, to mean ``Morgan Stanley, CGMI, MSSB and their respective affiliates" to reflect the addition of MSSB as a sponsor of the TRAK Program resulting from the Joint Venture Transaction; (iii) substituting the term ``Affiliated Entities" for ``CGMI" throughout Section III(d) in order to broaden the scope of the term ``affiliate" to capture the current affiliates of the Applicants; (iv) amending the sectional references in Sections III(d)(2) and (3) to conform to the corresponding modifications to Section III; (v) amending the definition of ``Independent Plan Fiduciary" in Section III(e) so that the Independent Plan Fiduciary is independent of MSSB in addition to CGMI and their respective affiliates, thereby preserving the purpose of the provisions in PTE 2009-12 that provide that only a party independent of the Applicants is exercising discretion with respect to, among other things, Plans' decisions to invest in the TRAK Program; and (vi) adding a new definition of ``MSSB" in Section III(f) to mean ``Morgan Stanley Smith Barney Holdings LLC, together with its affiliates."

16. Section IV of PTE 2009-12, pertaining to exemptive relief for the temporary and limited exception to the definition of the term ``affiliate," has been stricken since it is no longer applicable. Previously, Section IV provided that, during the three month period of time within which Citigroup held a 10% or greater economic ownership interest in Legg Mason, the Sub-Advisers would continue to be considered ``independent" of CGMI and its affiliates for purposes of Section II(h) and not ``affiliated" with CGMI and its affiliates for purposes of Section III(b) of the exemption. Because the time period has expired, Section IV is no longer relevant to the exemption. Finally, the Effective Date in new Section IV is modified to provide that the exemption, if granted, will be effective as of May 31, 2009, which is the closing date of the Joint Venture Transaction.

Summary

17. In summary, the Applicant represents that the transactions described herein have satisfied or will satisfy the statutory criteria for an exemption set forth in section 408(a) of the Act because:

- (a) The participation of Plans in the TRAK Program has been approved or will be approved by an Independent Plan Fiduciary;
- (b) The total fees paid to the Adviser and its affiliates has constituted or will constitute no more than reasonable compensation;
- (c) No Plan has paid or will pay a fee or commission by reason of the acquisition or redemption of shares in the Trust;
- (d) The terms of each purchase or redemption of Trust shares have remained or will remain at least as favorable to an investing Plan as those obtainable in an arm's length transaction with an unrelated party;

- (e) The Adviser has provided or will provide written documentation to an Independent Plan Fiduciary of its recommendations or evaluations based upon objective criteria, and such recommendation or evaluation has been implemented or will be implemented only at the express direction of such Independent Plan Fiduciary.
- (f) The Adviser has given or will give investment advice in writing to an Independent Plan Fiduciary with respect to all available Portfolios (with respect to participant directed plans, such advice is limited to the Portfolios made available under the Plan);
- (g) Any Sub-Adviser that acts for the Trust to exercise investment discretion over a Portfolio has been independent or will be independent of Morgan Stanley, CGMI, MSSB and their respective affiliates;
- (h) Immediately following the acquisition by a Portfolio of Adviser Common Stock, the percentage of that Portfolio's net assets invested in such securities generally has not exceeded or will not exceed one percent;
- (i) The quarterly investment advisory fee that is paid by a Plan to the Adviser for investment advisory services rendered to such Plan has been offset or will be offset by any amount in excess of 20 basis points that MSSB retains from any Portfolio (with the exception of the Money Market Investments Portfolio and the Stable Value Investments Portfolio for which neither MSSB nor the Trust will retain any investment management fee) which contains investments attributable to the Plan investor;
- (j) With respect to its participation in the TRAK Program, prior to purchasing Trust shares, each Plan has received or will receive written or oral disclosures and offering materials from the Adviser which generally disclose all material facts concerning the purpose, structure, operation, and investment in the TRAK Program, and describe the Adviser's recommendations or evaluations, including the reasons and objective criteria forming the basis for such recommendations or evaluations;
- (k) Subsequent to its participation in the TRAK Program, each Plan has received or will receive periodic written disclosures from the Adviser with respect to the financial condition of the TRAK Program, the total fees that it and its affiliates will receive from such Plans and the value of the Plan's interest in the TRAK Program, and on a quarterly and annual basis, written disclosures to all Plans of (a) the percentage of each Portfolio's brokerage commissions that are paid to the Affiliated Entities and (b) the average brokerage commission per share paid by each Portfolio to the Affiliated Entities, as compared to the average brokerage commission per share paid by the Trust to brokers other than the Affiliated Entities, both expressed as cents per share;

and

- (l) The Adviser has complied with, and will continue to comply with, the recordkeeping requirements provided in Section II(m) of the proposed exemption, for so long as such records are required to be maintained.

Notice to Interested Persons

Notice of the proposed exemption will be mailed by first class mail to the Independent Plan Fiduciary of each Plan currently participating in the TRAK Program, or, in the case of a Plan covered by Section 404(c) of the Act, to the recordholder of the Trust shares. Such notice will be given within 45 days of the publication of the notice of pendency in the Federal Register. The notice will contain a copy of the notice of proposed exemption, as published in the Federal Register, and a supplemental statement, as required pursuant to 29 CFR 2570.43(b)(2). The supplemental statement will inform interested persons of their right to comment on and/or to request a hearing with respect to the pending exemption. Written comments and hearing requests are due within 75 days of the publication of the proposed exemption in the Federal Register.

FOR FURTHER INFORMATION CONTACT: Warren Blinder of the Department, telephone (202) 693-8553. (This is not a toll-free number.)

General Information

The attention of interested persons is directed to the following:

- (1) The fact that a transaction is the subject of an exemption under section 408(a) of the Act and/or section 4975(c)(2) of the Code does not relieve a fiduciary or other party in interest or disqualified person from certain other provisions of the Act and/or the Code, including any prohibited transaction provisions to which the exemption does not apply and the general fiduciary responsibility provisions of section 404 of the Act, which, among other things, require a fiduciary to discharge his duties respecting the plan solely in the interest of the participants and

beneficiaries of the plan and in a prudent fashion in accordance with section 404(a)(1)(b) of the Act; nor does it affect the requirement of section 401(a) of the Code that the plan must operate for the exclusive benefit of the employees of the employer maintaining the plan and their beneficiaries;

(2) Before an exemption may be granted under section 408(a) of the Act and/or section 4975(c)(2) of the Code, the Department must find that the exemption is administratively feasible, in the interests of the plan and of its participants and beneficiaries, and protective of the rights of participants and beneficiaries of the plan;

(3) The proposed exemptions, if granted, will be supplemental to, and not in derogation of, any other provisions of the Act and/or the Code, including statutory or administrative exemptions and transitional rules. Furthermore, the fact that a transaction is subject to an administrative or statutory exemption is not dispositive of whether the transaction is in fact a prohibited transaction; and

(4) The proposed exemptions, if granted, will be subject to the express condition that the material facts and representations contained in each application are true and complete, and that each application accurately describes all material terms of the transaction which is the subject of the exemption.

Signed at Washington, DC, this 7th day of June, 2010.

Ivan Strasfeld,
Director of Exemption Determinations, Employee Benefits Security
Administration, U.S. Department of Labor.

[FR Doc. 2010-14023 Filed 6-10-10; 8:45 am]
BILLING CODE 4510-29-P

[Federal Register: December 16, 2010 (Volume 75, Number 241)]

[Notices]

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[DOCID:fr16de10-84]

DEPARTMENT OF LABOR

Employee Benefits Security Administration

Prohibited Transaction Exemptions From Certain Prohibited Transaction Restrictions

AGENCY: Employee Benefits Security Administration, Labor.

ACTION: Grant of Individual Exemptions.

SUMMARY: This document contains exemptions issued by the Department of Labor (the Department) from certain of the prohibited transaction restrictions of the Employee Retirement Income Security Act of 1974 (ERISA or the Act) and/or the Internal Revenue Code of 1986 (the Code). This notice includes the following: Citigroup Global Markets, Inc. and Its Affiliates (together, CGMI or the Applicant)

SUPPLEMENTARY INFORMATION: A notice was published in the Federal Register of the pendency before the Department of a proposal to grant such exemption. The notice set forth a summary of facts and representations contained in the application for exemption and referred interested persons to the application for a complete statement of the facts and representations. The application has been available for public inspection at the Department in Washington, DC. The notice also invited interested persons to submit comments on the requested exemption to

the Department. In addition, the notice stated that any interested person might submit a written request that a public hearing be held (where appropriate). The applicant has represented that it has complied with the requirements of the notification to interested persons. No requests for a hearing were received by the Department. Public comments were received by the Department as described in the granted exemption.

The notice of proposed exemption was issued and the exemption is being granted solely by the Department because, effective December 31, 1978, section 102 of Reorganization Plan No. 4 of 1978, 5 U.S.C. App. 1 (1996), transferred the authority of the Secretary of the Treasury to issue exemptions of the type proposed to the Secretary of Labor.

Citigroup Global Markets, Inc. and Its Affiliates (together, CGMI or the Applicant), Located in New York, New York

[Prohibited Transaction Exemption 2010-33; Exemption Application No. D-11573]

Exemption

Section I. Covered Transactions

A. The restrictions of section 406(a) of the Act and the sanctions resulting from the application of section 4975 of the Code, by reason of section 4975(c)(1)(A) through (D) of the Code, shall not apply, effective May 31, 2009, to the purchase or redemption of shares by an employee benefit plan, an individual retirement account (an IRA), a retirement plan for self-employed individuals (a Keogh Plan), or an individual account pension plan that is subject to the provisions of Title I of the Act and established under section 403(b) of the Code (the Section 403(b) Plan) (collectively, the Plans) in the Trust for Consulting Group Capital Markets Funds (the Trust), sponsored by MSSB in connection with such Plans' participation in the TRAK Personalized Investment Advisory Service (the TRAK Program).

B. The restrictions of section 406(b) of the Act and the sanctions resulting from the application of section 4975 of the Code, by reason of section 4975(c)(1)(E) and (F) of the Code, shall not apply, effective May 31, 2009, with respect to the provision of (i) investment advisory services by the Adviser or (ii) an automatic reallocation option as described below (the Automatic Reallocation Option) to an independent fiduciary of a participating Plan (the Independent Plan Fiduciary), which may result in such fiduciary's selection of a portfolio (the Portfolio)¹⁹ in the TRAK Program for the investment of Plan assets.

This exemption is subject to the following conditions set forth below in Section II.

Section II. General Conditions

(a) The participation of Plans in the TRAK Program is approved by an Independent Plan Fiduciary. For purposes of this requirement, an employee, officer or director of the Adviser and/or its affiliates covered by an IRA not subject to Title I of the Act will be considered an Independent Plan Fiduciary with respect to such IRA.

(b) The total fees paid to the Adviser and its affiliates will constitute no more than reasonable compensation.

(c) No Plan pays a fee or commission by reason of the acquisition or redemption of shares in the Trust.

(d) The terms of each purchase or redemption of Trust shares remain at least as favorable to an investing Plan as those obtainable in an arm's length transaction with an unrelated party.

(e) The Adviser provides written documentation to an Independent Plan Fiduciary of its recommendations or evaluations based upon objective criteria.

(f) Any recommendation or evaluation made by the Adviser to an Independent Plan Fiduciary is implemented only at the express direction of such Independent Plan Fiduciary, provided, however, that --

(1) If such Independent Plan Fiduciary elects in writing (the Election), on a form designated by the Adviser from time to time for such purpose, to participate in the Automatic Reallocation Option under the TRAK Program, the affected Plan or participant account is automatically reallocated whenever the Adviser modifies the particular

¹⁹ For the avoidance of doubt, unless the context suggests otherwise, the term "Portfolio" includes the Stable Value Investments Fund, a collective trust fund established and maintained by First State Trust Company, formerly a wholly-owned subsidiary of Citigroup.

asset allocation recommendation which the Independent Plan Fiduciary has chosen. Such Election continues in effect until revoked or terminated by the Independent Plan Fiduciary in writing.

(2) Except as set forth below in paragraph II(f)(3), at the time of a change in the Adviser's asset allocation recommendation, each account based upon the asset allocation model (the Allocation Model) affected by such change is adjusted on the business day of the release of the new Allocation Model by the Adviser, except to the extent that market conditions, and order purchase and redemption procedures, may delay such processing through a series of purchase and redemption transactions to shift assets among the affected Portfolios.

(3) If the change in the Adviser's asset allocation recommendation exceeds an increase or decrease of more than 10 percent in the absolute percentage allocated to any one investment medium (e.g., a suggested increase in a 15 percent allocation to greater than 25 percent, or a decrease of such 15 percent allocation to less than 5 percent), the Adviser sends out a written notice (the Notice) to all Independent Plan Fiduciaries whose current investment allocation may be affected, describing the proposed reallocation and the date on which such allocation is to be instituted (the Effective Date). If the Independent Plan Fiduciary notifies the Adviser, in writing, at any time within the period of 30 calendar days prior to the proposed Effective Date that such fiduciary does not wish to follow such revised asset allocation recommendation, the Allocation Model remains at the current level, or at such other level as the Independent Plan Fiduciary then expressly designated, in writing. If the Independent Plan Fiduciary does not affirmative 'opt out' of the new Adviser recommendation, in writing, prior to the proposed Effective Date, such new recommendation is automatically effected by a dollar-for-dollar liquidation and purchase of the required amounts in the respective account.

(4) An Independent Plan Fiduciary will receive a trade confirmation of each reallocation transaction. In this regard, for all Plan investors other than Section 404(c) Plan accounts (i.e., 401(k) Plan accounts), CGMI or MSSB, as applicable, mails trade confirmations on the next business day after the reallocation trades are executed. In the case of Section 404(c) Plan participants notification depends upon the notification provisions agreed to by the Plan recordkeeper.

(g) The Adviser generally gives investment advice in writing to an Independent Plan Fiduciary with respect to all available Portfolios. However, in the case of a Plan providing for participant-directed investments (the Section 404(c) Plan), the Adviser provides investment advice that is limited to the Portfolios made available under the Plan.

(h) Any sub-adviser (the Sub-Adviser) that acts for the Trust to exercise investment discretion over a Portfolio is independent of Morgan Stanley, Inc. (Morgan Stanley), CGMI, MSSB and their respective affiliates (collectively, the Affiliated Entities).

(i) Immediately following the acquisition by a Portfolio of any securities that are issued by any Affiliated Entity, such as Citigroup or Morgan Stanley common stock (the Adviser Common Stock), the percentage of that Portfolio's net assets invested in such securities will not exceed one percent. However, this percentage limitation may be exceeded if--

(1) The amount held by a Sub-Adviser in managing a Portfolio is held in order to replicate an established third-party index (the Index).

(2) The Index represents the investment performance of a specific segment of the public market for equity securities in the United States and/or foreign countries. The organization creating the Index is:

(i) Engaged in the business of providing financial information;

(ii) A publisher of financial news information; or

(iii) A public stock exchange or association of securities dealers. The Index is created and maintained by an organization independent of the Affiliated Entities and is a generally-accepted standardized Index of securities which is not specifically tailored for use by the Affiliated Entities.

(3) The acquisition or disposition of Adviser Common Stock does not include any agreement, arrangement or understanding regarding the design or operation of the Portfolio acquiring such Adviser Common Stock, which is intended to benefit the Affiliated Entities or any party in which any of the Affiliated Entities may have an interest.

(4) The Independent Plan Fiduciary authorizes the investment of a Plan's assets in an Index Fund which purchases and/or holds the Adviser Common Stock and the Sub-Adviser is responsible for voting any shares of Adviser Common Stock that are held by an Index Fund on any matter in which shareholders of Adviser Common Stock are required or permitted to vote.

(j) The quarterly investment advisory fee that is paid by a Plan to the Adviser for investment advisory services rendered to such Plan is offset by any amount in excess of 20 basis points that MSSB retains from any Portfolio (with the exception of the Money Market Investments Portfolio and the Stable Value Investments Portfolio for which neither MSSB nor the Trust will retain any investment management fee) which contains investments attributable to the Plan investor.

(k) With respect to its participation in the TRAK Program prior to purchasing Trust shares,

(1) Each Plan receives the following written or oral disclosures from the Adviser:

(A) A copy of the Prospectus for the Trust discussing the investment objectives of the Portfolios comprising the Trust, the policies employed to achieve these objectives, the corporate affiliation existing among the Adviser and its affiliates, and the compensation paid to such entities.²⁰

(B) Upon written or oral request to the Adviser, a Statement of Additional Information supplementing the Prospectus which describes the types of securities and other instruments in which the Portfolios may invest, the investment policies and strategies that the Portfolios may utilize and certain risks attendant to those investments, policies and strategies.

(C) A copy of the investment advisory agreement between the Adviser and such Plan which relates to participation in the TRAK Program and describes the Automatic Reallocation Option.

(D) Upon written request of the Adviser, a copy of the respective investment advisory agreement between MSSB and

(E) the Sub-Advisers.

(F) In the case of a Section 404(c) Plan, if required by the arrangement negotiated between the Adviser and the Plan, an explanation by an Adviser representative (the Financial Advisor) to eligible participants in such Plan, of the services offered under the TRAK Program and the operation and objectives of the Portfolios.

(G) A copy of the proposed exemption and the final exemption pertaining to the exemptive relief described herein.

(2) If accepted as an investor in the TRAK Program, an Independent Plan Fiduciary of an IRA or Keogh Plan is required to acknowledge, in writing, prior to purchasing Trust shares that such fiduciary has received copies of the documents described above in subparagraph (k)(1) of this section.

(3) With respect to a Section 404(c) Plan, written acknowledgement of the receipt of such documents is provided by the Independent Plan Fiduciary (i.e., the Plan administrator, trustee or named fiduciary, as the recordholder of Trust shares). Such Independent Plan Fiduciary is required to represent in writing to the Adviser that such fiduciary is (a) independent of the Affiliated Entities and (b) knowledgeable with respect to the Plan in administrative matters and funding matters related thereto, and able to make an informed decision concerning participation in the TRAK Program.

(4) With respect to a Plan that is covered under Title I of the Act, where investment decisions are made by a trustee, investment manager or a named fiduciary, such Independent Plan Fiduciary is required to acknowledge, in writing, receipt of such documents and represent to the Adviser that such fiduciary is (a) independent of the Affiliated Entities, (b) capable of making an independent decision regarding the investment of Plan assets and (c) knowledgeable with respect to the Plan in administrative matters and funding matters related thereto, and able to make an informed decision concerning participation in the TRAK Program.

(I) Subsequent to its participation in the TRAK Program, each Plan receives the following written or oral disclosures with respect to its ongoing participation in the TRAK Program:

(1) The Trust's semi-annual and annual report including a financial statement for the Trust and investment management fees paid by each Portfolio.

(2) A written quarterly monitoring statement containing an analysis and an evaluation of a Plan investor's account to ascertain whether the Plan's investment objectives have been met and recommending, if required, changes in Portfolio allocations.

²⁰ The fact that certain transactions and fee arrangements are the subject of an administrative exemption does not relieve the Independent Plan Fiduciary from the general fiduciary responsibility provisions of section 404 of the Act. In this regard, the Department expects the Independent Plan Fiduciary to consider carefully the totality of the fees and expenses to be paid by the Plan, including any fees paid directly to MSSB, CGMI or to other third parties.

(3) If required by the arrangement negotiated between the Adviser and a Section 404(c) Plan, a quarterly, detailed investment performance monitoring report, in writing, provided to an Independent Plan Fiduciary of such Plan showing Plan level asset allocations, Plan cash flow analysis and annualized risk adjusted rates of return for Plan investments. In addition, if required by such arrangement, Financial Advisors meet periodically with Independent Plan Fiduciaries of Section 404(c) Plans to discuss the report as well as with eligible participants to review their accounts' performance.

(4) If required by the arrangement negotiated between the Adviser and a Section 404(c) Plan, a quarterly participant performance monitoring report provided to a Plan participant which accompanies the participant's benefit statement and describes the investment performance of the Portfolios, the investment performance of the participant's individual investment in the TRAK Program, and gives market commentary and toll-free numbers that enable the participant to obtain more information about the TRAK Program or to amend his or her investment allocations.

(5) On a quarterly and annual basis, written disclosures to all Plans of (a) the percentage of each Portfolio's brokerage commissions that are paid to the Affiliated Entities and (b) the average brokerage commission per share paid by each Portfolio to the Affiliated Entities, as compared to the average brokerage commission per share paid by the Trust to brokers other than the Affiliated Entities, both expressed as cents per share.

(m) The Adviser maintains or causes to be maintained, for a period of (6) six years, the records necessary to enable the persons described in paragraph (m)(1) of this section to determine whether the applicable conditions of this exemption have been met. Such records are readily available to assure accessibility by the persons identified in paragraph (1) of this section.

(1) Notwithstanding any provisions of section 504(a)(2) and (b) of the Act, the records referred to in the first paragraph of this section are unconditionally available at their customary location for examination during normal business hours by--

- (i) Any duly authorized employee or representative of the Department or the Internal Revenue Service;
- (ii) Any fiduciary of a participating Plan or any duly authorized representative of such fiduciary;
- (iii) Any contributing employer to any participating Plan or any duly authorized employee representative of such employer; and
- (iv) Any participant or beneficiary of any participating Plan, or any duly authorized representative of such participant or beneficiary.

(2) A prohibited transaction is not deemed to have occurred if, due to circumstances beyond the control of the Adviser, the records are lost or destroyed prior to the end of the six-year period, and no party in interest other than the Adviser is subject to the civil penalty that may be assessed under section 502(i) of the Act or to the taxes imposed by sections 4975(a) and (b) of the Code if the records are not maintained or are not available for examination as required by paragraph (1) of this section.

(3) None of the persons described in subparagraphs (ii)-(iv) of section (m)(1) is authorized to examine the trade secrets of the Adviser or commercial or financial information which is privileged or confidential.

(4) Should the Adviser refuse to disclose information on the basis that such information is exempt from disclosure, the Adviser shall, by the close of the thirtieth (30th) day following the request, provide written notice advising that person of the reason for the refusal and that the Department may request such information.

Section III. Definitions

For purposes of this exemption:

- (a) The term "Adviser" means CGMI or MSSB as investment adviser to Plans.
- (b) The term "Affiliated Entities" means Morgan Stanley, CGMI, MSSB and their respective affiliates.
- (c) The term "CGMI" means Citigroup Global Markets Inc. and any affiliate of Citigroup Global Markets Inc.
- (d) An "affiliate" of any of the Affiliated Entities includes:
 - (1) Any person directly or indirectly through one or more intermediaries, controlling, controlled by, or under common control with the Affiliated Entity. (For purposes of this subparagraph, the term "control" means the power to exercise a controlling influence over the management or policies of a person other than an individual);
 - (2) Any individual who is an officer (as defined in Section III(g) hereof), director or partner in the Affiliated Entity or a person described in subparagraph (d)(1);
 - (3) Any corporation or partnership of which the Affiliated Entity, or an affiliate described in subparagraph (d)(1), is a 10 percent or more partner or owner; and

(4) Any corporation or partnership of which any individual which is an officer or director of the Affiliated Entity is a 10 percent or more partner or owner.

(e) An "Independent Plan Fiduciary" is a Plan fiduciary which is independent of the Affiliated Entities and is either:

(1) A Plan administrator, sponsor, trustee or named fiduciary, as the recordholder of Trust shares under a Section 404(c) Plan;

(2) A participant in a Keogh Plan;

(3) An individual covered under (i) a self-directed IRA or (ii) a Section 403(b) Plan, which invests in Trust shares;

(4) A trustee, investment manager or named fiduciary responsible for investment decisions in the case of a Title I Plan that does not permit individual direction as contemplated by Section 404(c) of the Act; or

(5) A participant in a Plan, such as a Section 404(c) Plan, who is permitted under the terms of such Plan to direct, and who elects to direct, the investment of assets of his or her account in such Plan.

(f) The term "MSSB" means Morgan Stanley Smith Barney Holdings LLC, together with its subsidiaries.

(g) The term "officer" means a president, any vice president in charge of a principal business unit, division or function (such as sales, administration or finance), or any other officer who performs a policymaking function for the entity.

Section IV. Effective date

This exemption is effective as of May 31, 2009 with respect to the Covered Transactions, the General Conditions and the Definitions that are described in Sections I, II and III.

Written Comments

The Department invited all interested persons to submit written comments and/or requests for a public hearing with respect to the notice of proposed exemption on or before August 25, 2010. During the comment period, the Department received 13 telephone calls and 2 comment letters from participants or beneficiaries in Plans with investments in the TRAK Program, which concerned the commenters' difficulty in understanding the notice of proposed exemption or the effect of the exemption on the commenters' benefits. The Department also received one written comment from the Applicant, which concerned the correction of a publication error appearing in the operative language of Section II of the proposed exemption and the correction of a typographical error appearing in Representation 15 of the Summary of Facts and Representations (the Summary). The Department received no hearing requests during the comment period.

With respect to the operative language, the Applicant notes that the first two paragraphs of Section II, General Conditions read:

(a) The participation of Plans in the TRAK Program is

(b) Approved by an Independent Plan Fiduciary. For purposes of this requirement, an employee, officer or director of the Adviser and/or its affiliates covered by an IRA not subject to Title I of the Act will be considered an Independent Plan Fiduciary with respect to such IRA.

Accordingly, the Applicant requests that parenthetical "(b)" be deleted and the sentence fragments reproduced above be combined into a single paragraph following the parenthetical "(a)", and that the ensuing paragraphs in Section II be re-lettered for consistency. The Department concurs with the Applicant's requested correction of this publication error and it has revised Section II of the final exemption. With respect to the Summary, the Applicant notes that, at the end of Representation 15, which describes revisions to the operative language of PTE 2009-12, the proposed exemption states that "a new definition of MSSB is added in Section III(f) to mean Morgan Stanley Smith Barney Holdings LLC, together with its affiliates." However, the Applicant points out that the definition of MSSB in Section III(f) of the proposed exemption includes the term "subsidiaries," rather than "affiliates." Accordingly, the Applicant requests that, at the end of Representation 15, the word "affiliates" be replaced with the word "subsidiaries," in order to be consistent with Section III(f) of the Definitions. The Department concurs and takes note of the foregoing revision to Representation 15 of the Summary.

After giving full consideration to the entire record, including the written comments, the Department has decided to grant the exemption, as described above. The complete application file is made available for public inspection in

the Public Documents Room of the Employee Benefits Security Administration, Room N-1513, U.S. Department of Labor, 200 Constitution Avenue, NW., Washington, DC 20210.

For a more complete statement of the facts and representations supporting the Department's decision to grant this exemption refer to the proposed exemption published in the Federal Register on June 11, 2010 at 75 FR 33344.

FOR FURTHER INFORMATION CONTACT: Warren Binder of the Department, telephone (202) 693-8553. (This is not a toll-free number.)

Signed at Washington, DC, this 13th day of December 2010.

Ivan Strasfeld,
Director of Exemption Determinations, Employee Benefits Security
Administration, U.S. Department of Labor.
[FR Doc. 2010-31571 Filed 12-15-10; 8:45 am]
BILLING CODE 4510-29-P