

# **Form ADV Wrap Fee Program Brochure**

## **Morgan Stanley Smith Barney LLC**

Strategic Portfolios Program

**June 30, 2017**

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

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

## **Item 2: Material Changes**

This section identifies and discusses material changes to the ADV Brochure since the version of the Brochure dated March 30, 2016. For more details on any particular matter, please see the item in this ADV Brochure referred to in the summary below.

### **Disciplinary Information.**

On February 14, 2017, the SEC entered into a settlement with MSSB regarding an administrative action. In this matter, MSSB admitted to certain facts within the order and consented to the entry of the order that finds that MSSB willfully violated section 206(4) of the Investment Advisers Act of 1940 and Rule 206(4)-7 thereunder. (Item 9).

On January 13, 2017, the SEC entered into a settlement with MSSB regarding an administrative action. In this matter, without admitting or denying the findings within the order, MSSB consented to the entry of the order that finds that MSSB willfully violated sections 204(A), 206(2) and 206(4) of the Investment Advisers Act of 1940 and Rules 204-2(a)(10), 204-2(e)(1), 206(4)-2 and 206(4)-7 thereunder. The order referred to herein may be viewed at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV). Copies of the order may also be requested by contacting (888) 250-6464 or emailing [client.services@ms.com](mailto:client.services@ms.com). (Item9).

On June 8, 2016, the SEC entered into a settlement with MSSB regarding an administrative action (“June 2016 Order”). In this matter, without admitting or denying the findings within the June 2016 Order, MSSB consented to the entry of the June 2016 Order that finds that MSSB willfully violated Rule 30(a) of Regulation S-P (17 C. F. R. § 248.30(a)) prior to December 2014. (Item 9).

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## Item 4: Services, Fees and Compensation

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

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

We reasonably expect to provide services as a “fiduciary” (as that term is defined in Section 3(21)(A) of the Employee Retirement Income Security Act of 1974 (“ERISA”) and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”)), with respect to “Retirement Accounts”. For purposes of this Brochure, the term “Retirement Account” will be used to cover (i) “employee benefit plans” (as defined under Section 3(3) of ERISA), which include pension, profit-sharing or welfare plans sponsored by private employers, as well as similar arrangements sponsored by governmental or other public employers; (ii) individual retirement accounts (“IRAs” (as described in Section 4975 of the Code); and (iii) Coverdell Educational Savings Accounts.

All clients’ assets are custodied at MSSB (except for “sweep” assets custodied at the Sweep Banks and, if applicable, the Sweep Fund (as defined in Item 4.C below) pursuant to the Bank Deposit Program). *Please see Item 4.C (Services, Fees and Compensation -- Additional Fees – Cash Sweeps -- Bank Deposit Program) below, for more information.*

### A. General Description of Program and Services

The Strategic Portfolios program is currently closed to new business. In the Strategic Portfolios program, the client’s account is managed by MSSB (acting through its Private Portfolio Group (“PPG”) division) without the involvement of any Sub-Managers.

The program seeks as its primary investment objective long-term capital appreciation. The portfolios are individually managed based on the implementation of the Dow Dividend Strategy (the “Dow Strategy”). The Dow 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 Dow Strategy uses dividend yield as the primary criterion for portfolio selection. Generally, the Dow Strategy invests in the ten highest yielding stocks in the DJIA. Individual accounts are invested on a daily basis (as clients select Strategic Portfolios for their accounts), purchasing the ten highest-yielding DJIA stocks as of the time of the immediately previous re-balance for the strategy (*i.e.*, on or around the beginning of that calendar year). Accounts are generally

restructured and rebalanced annually, on or around the beginning of each calendar year. Generally, PPG will allow a full year to elapse before the next rebalancing (to allow for long term capital gain treatment). There may be some circumstances when MSSB will deviate from the discipline and make adjustments to the portfolios.

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

### Account Opening

To enroll in the Strategic Portfolios program, you (in consultation with your Financial Advisor) had to complete an investment questionnaire and enter into the program client agreement (“Client Agreement”).

You may also have been required to execute a brokerage account agreement. All the terms of the Client Agreement and the brokerage account agreement will set forth our mutual obligations regarding the investment advisory program described in this Brochure.

### Investment Restrictions

In the Strategic Portfolios program, you may request reasonable restrictions on the management of your account (may request that certain specified securities, or certain categories of securities, not be purchased for your account). This request may be made orally or in writing, but MSSB may require that any such request (or any changes to the request) be in writing. MSSB will accept reasonable restrictions on specific common equity and fixed income securities, as well as on certain categories of equity securities (e.g., tobacco companies). MSSB will determine in its reasonable judgment how to implement such restrictions, and may implement restrictions differently in accounts that have elected tax management services (if applicable). If you restrict a category of securities, we will determine in our discretion which specific securities fall within the restricted category. In doing so, we may rely on outside sources (e.g. standard industry codes and research provided by independent service providers). In this program, the portion of the account that would have been invested in any restricted 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.

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

### Trade Confirmations, Account Statements and Performance Reviews

MSSB is the custodian and provides you with written confirmation of securities transactions, and account statements at least quarterly. You may waive the receipt of trade

confirmations after the completion of each trade in favor of alternative methods of communication where available.

We will provide periodic reviews of your account. These reviews show how your account investments have performed, both on an absolute basis and on a relative basis compared to recognized indices (such as Standard & Poor's indices). You may access these reports through MSSB's online account services site. To access these reports in the online account service site, please go to <https://www.morganstanleyclientserv.com>, log on, and select "Account Documents". If, however, you would like to receive these reports by mail, please call 1-888-454-3965.

## Risks

All trading in an account is at your risk. The value of the assets held in an account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. Investment performance of any kind is not guaranteed, and MSSB's or a Financial Advisor's past performance with respect to other accounts does not predict future performance with respect to any particular account. You should consult with your Financial Advisor regarding the specific risks associated with the investments in your account.

**Risks Relating to Money Market Funds.** An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, there is no assurance that will occur, and it is possible to lose money if the fund value per share falls. Moreover, in some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings are liquidated and distributed to the fund's shareholders. This liquidation process could take up to one month or more. During that time, these funds would not be available to you to support purchases, withdrawals and, if applicable, check writing or ATM debits from your account.

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

## Tax and Legal Considerations

Consult your independent tax or legal advisor with respect to the services described in this Brochure, as MSSB and its affiliates do not provide tax or legal advice.

## Fees

In the Strategic Portfolios program, the client pays an asset-based fee to MSSB (the "MSSB Fee"), which covers MSSB investment advisory services provided by your Financial Advisor, custody of securities, trade execution with or through MSSB, as well as compensation to any Financial Advisor. This is a wrap fee. The maximum annual MSSB Fee for the Strategic Portfolios program 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 "Breakpoints" below in this Item 4.A, for more information.*

In addition, Clients invested in the Strategic Portfolios program pay MSSB an annual fee for the investment advisory services provided by the MSSB Private Portfolio Group division of 0.30% of assets invested.

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

**Fees are Negotiable.** Fees for the Strategic Portfolios program described in this Brochure are negotiable based on a number of factors including the type and size of the account and the range of services provided by the Financial Advisor.

**When Fees are Payable.** The Fee is payable as described in the Client Agreement and in this Brochure. Generally, the initial Fee is due in full on the date you open your account at MSSB and is based on the market value of the account on that date. The initial Fee payment covers the period from the opening date through the last business day of the next full billing quarter and is prorated accordingly. Thereafter, the Fee is generally paid quarterly in advance based on the account's market value on the last business day of the previous billing quarter and is due on the tenth business day of the following billing quarter. The Client Agreement authorizes MSSB (as custodian) to deduct fees when due from the assets contained in the account.

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

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

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

**ERISA Fee Disclosure for Qualified Retirement Accounts.** In accordance with Department of Labor regulations under Section 408(b)(2) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), MSSB is required to provide certain information regarding our services and compensation to assist fiduciaries and plan sponsors of those Retirement Accounts that are subject to the requirements of ERISA in assessing the reasonableness of their plan’s contracts or arrangements with us, including the reasonableness of our compensation. This information (the services we provide as well as the fees) is provided to you at the outset of your relationship with us and is set forth in this Brochure and in your advisory contract with us (including the Fee table and other exhibits), and then at least annually to the extent that there are changes to any investment-related disclosures for services provided as a fiduciary under ERISA.

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

## **B. Comparing Costs**

Depending on the level of trading and types of securities purchased or sold in your account, if purchased separately, you may be able to obtain transaction execution at a higher or lower cost at MSSB or elsewhere than the fee in the Strategic Portfolios program. However, such transactions could not be executed on a discretionary basis in a brokerage account. Clients who participate in the Strategic Portfolios program pay a fee based on the market value of the account for a variety of services, and accordingly may pay more or less for such services than if they purchased such services separately (to the extent that such services would be available separately to the client). Furthermore, the same or similar services to those available in the Strategic Portfolios program may be available at a lower fee in programs offered by other investment advisors. In addition, the MSSB Consulting Group offers other programs that do not offer the same services as offered in Strategic Portfolios. The fees in those programs may be higher or lower than the fees in the Strategic Portfolios program.

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

## **C. Additional Fees**

If you open an account in one of the program described in this Brochure, you will pay an asset-based “wrap” fee as described above. This “wrap” fee includes the services provided by MSSB, as described in this Brochure, custody of securities and trade execution through MSSB, as well as compensation to any Financial Advisor.

The program fees do not cover:

- “mark-ups,” “mark-downs,” and dealer spreads (A) that MSSB or its affiliates may receive when acting as principal in certain transactions where permitted by law or (B) that other broker-dealers may receive when acting as principal in certain transactions effected through MSSB and/or its affiliates acting as agent, which is typically the case for dealer market transactions (e.g., fixed income and over-the-counter equity)

- brokerage commissions or other charges resulting from transactions not effected through MSSB or its affiliates
- MSSB account establishment or maintenance fees for its IRA and Versatile Investment Plans (“VIP”), which are described in the respective IRA and VIP account and fee documentation (which may change from time to time)
- account closing/transfer costs
- processing fees or
- certain other costs or charges that may be imposed by third parties (including, among other things, odd-lot differentials, transfer taxes, foreign custody fees, exchange fees, supplemental transaction fees, regulatory fees and other fees or taxes that may be imposed pursuant to law).

## **Cash Sweeps**

Generally, some portion of your account will be held in cash. MSSB, as your custodian, will effect “sweep” transactions of free credit balances and allocations to cash, if any, in your account into:

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

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

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

Clients that are considered Retirement Accounts should read Exhibit A to this Brochure (“Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement”).

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

### **Bank Deposit Program**

Through the Bank Deposit Program, Deposit Accounts are established for you by and in the name of MSSB at one or more of the following banks (individually and collectively, the “Sweep Banks”): (i) Morgan Stanley Bank, N.A. and/or (ii) Morgan Stanley Private Bank, National Association. The Sweep Banks are affiliated with MSSB. The Sweep Banks pay interest on the Deposit Accounts established under the BDP. Your deposits at the Sweep Banks will be insured by the Federal Deposit Insurance Corporation (“FDIC”) up to applicable limits, in accordance with FDIC rules, and subject to aggregation of all the accounts (including, without limitation, certificates of deposit and deposits through the MSSB savings program) that you hold at the Sweep Banks in the same capacity. Deposits

held through the BDP are not covered by SIPC or excess coverage.

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

Funds will be deposited into your Deposit Accounts at the Sweep Banks up to a total deposit amount of \$2,000,000 across both Sweep Banks (the “Deposit Maximum”). Once the deposited funds reach the Deposit Maximum, any additional free credit balances will be swept, without limit, into an applicable money market fund for eligible accounts (the “Sweep Fund”). If your account is eligible, the Sweep Fund available for your Account is the Morgan Stanley Institutional Liquidity Funds Government Securities Portfolio (symbol MGPXX). A prospectus that sets forth the investment risks and other important information about the Sweep Fund will be mailed to you upon the first deposit into the Sweep Fund. The Deposit Maximum and the Sweep Fund are subject to change with prior notice to you from Morgan Stanley.

Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which will be provided to you upon your first investment in the Bank Deposit Program. You may also obtain the Bank Deposit Program Disclosure Statement as well as current interest rates applicable to your account, by contacting your Financial Advisor or through MSSB’s web sites at [http://www.morganstanley.com/wealth-investmentstrategies/pdf/BDP\\_disclosure.pdf](http://www.morganstanley.com/wealth-investmentstrategies/pdf/BDP_disclosure.pdf) and <http://www.morganstanley.com/wealth-investmentstrategies/ratemonitor.html>. You acknowledge and understand that we may amend the list of Sweep Banks at any time with 30 days written notice to you. If you are participating in the Bank Deposit Program, please read the Bank Deposit Program Disclosure Statement carefully.

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

If BDP is your Sweep Investment, you should be aware that the Sweep Banks will pay MSSB an annual account-based flat fee for the services performed by MSSB with respect to BDP. MSSB and the Sweep Banks will review such fee annually and, if applicable, mutually agree upon any changes to the fee to reflect any changes in costs incurred by MSSB. Your Financial Advisor will not receive a portion of these fees or credits. In addition, MSSB will not receive cash compensation or credits in connection with the BDP for assets in the Deposit Accounts for Retirement Accounts or Coverdell Education Savings accounts. Also, the affiliated Sweep Banks have the opportunity to earn income on the BDP assets through lending activity, and that income is usually significantly greater than the fees MSSB earns on affiliated Money Market Funds. Thus, MSSB has a conflict of interest in selecting or recommending BDP as the sweep fund, rather than an eligible Money Market Fund. Further, MSSB’s affiliate, Morgan Stanley Investment Management, serves as the investment advisor to the Sweep Fund. MSSB receives revenue-sharing compensation from Morgan Stanley Investment Management based on the amount of Sweep Fund assets held by

clients in brokerage accounts of up to 0.25% per year (\$25 per \$10,000 of assets). This fee is not assessed on positions held by clients in advisory accounts.

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

*An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in a money market fund.*

*An investor should consider the investment objectives, risks, and charges and expenses of a money market fund(s) carefully before investing. A prospectus which contains this and other important information about any applicable money market fund may be obtained from your Financial Advisor or from Morgan Stanley Investment Management at <http://www.morganstanley.com/im/en-us/individual-investor.html>. Please read the prospectus carefully before investing or sending money.*

#### **Money Market Funds.**

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

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

Each of these Money Market Funds is a separate investment with different investment objectives. Their fees, expenses, minimum investment requirements, dividend policies and procedures may vary. Investment in any Money Market Fund is a purchase of securities issued by the Money Market Fund, not a bank deposit.

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

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

balance requirement, we may preclude you from investing in that Sweep Investment in the future.

We may offer other money market funds as a non-sweep investment choice. You may purchase shares in these money market funds by giving specific orders for each purchase to your Financial Advisor, or if applicable to the program in which you are invested, your Financial Advisor may purchase such shares for your Account under the Financial Advisor's discretionary authority. However, free credit balances in your account will not be swept into these money market funds.

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

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

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

If you invest in the program described in this Brochure, a portion of the fees payable to us in connection with your account is allocated on an ongoing basis to your Financial Advisor. The amount allocated to your Financial Advisor in connection with accounts opened in program described in this Brochure may be more than if you participated in other MSSB investment advisory programs, or if you paid separately for investment advice, brokerage and other services. The rate of compensation we pay Financial Advisors with respect to program accounts may be higher than the rate we pay Financial Advisors with respect to transaction-based brokerage accounts. Your Financial Advisor may therefore have a financial incentive to recommend one of the programs described in this Brochure instead of other MSSB programs or services.

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

## **Item 5: Account Requirements and Types of Clients**

**Account Minimums.** In the Strategic Portfolios program, MSSB generally imposes an investment minimum of \$50,000 for new accounts. MSSB, in its sole discretion, may waive this

minimum for any one or more accounts. As indicated in Item 4.A above, the Strategic Portfolios program is currently closed to new clients.

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

## **Item 6: Portfolio Manager Selection and Evaluation**

### **A. Selection and Review of Portfolio Managers for the Program**

#### **Selection and Review of Portfolio Manager**

In the Strategic Portfolios program, the client's account is managed by MSSB (acting through its Private Portfolio Group division) without the involvement of any Sub-Managers. The portfolios are individually managed based on the implementation of a disciplined strategy (the Dow Dividend Strategy). The individual portfolio manager who implements this strategy for all clients is an employee of the MSSB Private Portfolio Group. *See Item 4.A above for a description of the services offered in the Strategic Portfolios program.*

Because the program is closed to new clients, MSSB calculates individual account performance for each client, but does not currently calculate aggregate performance across accounts. No third party reviews this performance calculation.

### **B. Conflicts of Interest**

#### **Conflicts of Interest – MSSB Acting as Portfolio Manager; Advisory vs. Brokerage Accounts**

In the Strategic Portfolios program, MSSB acts as the portfolio manager, and is compensated accordingly as described above. MSSB and your Financial Advisor retain a greater portion of the advisory fee in the Strategic Portfolios program, than in a program in which an unaffiliated investment manager acts as your portfolio manager. MSSB and your Financial Advisor may earn more compensation if you invest in a program described in this Brochure than if you open a brokerage account to buy individual securities (although, in a brokerage account, you would not receive all the benefits of the program described in this Brochure). This creates a conflict of interest for MSSB as Financial Advisors and MSSB have a financial incentive to recommend the program described in this Brochure. We address this conflict of interest by disclosing it to you and by requiring Financial Advisors' supervisors to review your account at account-opening to ensure that it is suitable for you in light of matters such as your investment objectives and financial circumstances.

#### **Other Conflicts of Interest**

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

**Different Advice.** MSSB and its affiliates may give different advice, take different action, receive more or less compensation, or hold or deal in different securities for any other party, client

or account (including their own accounts or those of their affiliates) from the advice given, actions taken, compensation received or securities held or dealt for your account.

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

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

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

**Restrictions on Securities Transactions.** There may be periods during which MSSB or investment managers are not permitted to initiate or recommend certain types of transactions in the securities of issuers for which MSSB or one of its affiliates is performing broker-dealer or investment banking services or have confidential or material non-public information. Furthermore, in certain investment advisory programs, MSSB may be compelled to forgo trading in, or providing advice regarding, Morgan Stanley Parent (as defined in Item 9 below) securities, and in certain related securities. These restrictions may adversely impact your account performance.

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

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

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

**Certain Trading Systems.** MSSB may effect trades or securities lending transactions on behalf of client accounts through exchanges, electronic communication networks or other alternative trading systems (“Trading Systems”), including Trading Systems with respect to which MSSB or its affiliates may have a non-controlling direct or indirect ownership interest or right to appoint a board member or observer. If MSSB directly or indirectly effects client trades or transactions through Trading Systems in which MSSB or its affiliates have an ownership interest, MSSB or its affiliates may receive an indirect economic benefit based on their ownership interest. In addition, subject at all times to its obligations to obtain best execution for its customers’ orders, it is contemplated that MSSB will route certain customer order flow to its affiliates. Currently, MSSB and/or its affiliates own equity interests (or interests convertible into equity) in certain Trading Systems or their parent companies, including BIDS Holdings LP and BIDS Holdings GP LLC (commonly known as “BIDS”); CHX Holdings Inc.; CHI-X Global Holdings LLC; National Stock Exchange of India; BM&F Bovespa; Miami International Holdings Inc.; Equilend, Euroclear PLC; LCH.Clearnet Group Ltd.; Source Holding Ltd; Turquoise Global Holdings Ltd.; CJSC The Moscow Interbank Currency Exchange Settlement House; CME; EUREX Bonds; ICE US Holding Company, LP; MuniCenter – The Debt Center, LLC; OTCDeriv Limited; TradeWeb Markets LLC; TIFFE – Tokyo Financial Futures Exchange; ERIS Exchange Holdings LLC; iSWAP Limited; CME/CBOT/NYMEX; Dubai Mercantile Exchange; European Energy Exchange; Intercontinental Exchange; Tokyo Commodities Exchange; Bombay Stock Exchange; Tokyo Financial Exchange; Japan Securities Clearing Corporation; Japan Securities Depository Center Inc.; and Japan Securities Clearing Corporation.

The Trading Systems on which MSSB trades or effects securities lending transactions for client accounts and in which MSSB or its affiliates own interests may change from time to time. You may contact your Financial Advisor for an up-to-date list of Trading Systems in which MSSB or its affiliates own interests and on which MSSB and/or MS&Co. trade for client accounts.

Certain Trading Systems offer cash credits for orders that provide liquidity to their books and charge explicit fees for orders that extract liquidity from their books. From time to time, the amount of credits that MSSB, and/or MS&Co. 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 and/or MS&Co. may directly or indirectly effect client trades execute transactions on a “blind” basis, so that a party to a transaction does not know the identity of the counterparty to the transaction.

It is possible that an order for a client account that is executed through such a Trading System could be automatically matched with a counterparty that is (i) another investment advisory or brokerage client of MSSB or one of its affiliates or (ii) MSSB or one of its affiliates acting for its own proprietary accounts.

#### **Payment Arrangements with Private Portfolio Group Vendor.**

The Strategic Portfolios program is managed by PPG and PPG implements the Strategic Portfolios investments, as described in this ADV Brochure. A vendor which PPG utilizes to provide trade analysis has agreed to reduce the fees it charges to PPG for this trade analysis, provided that a certain number of firms that trade with PPG also subscribe to the vendor's services. This creates a conflict of interest for MSSB in that PPG's fees paid to this vendor would change depending on whether PPG trades with fewer or more firms that subscribe to the vendor's services in the future. PPG has not and will not consider this impact on the fees it pays in any way, either in determining which firms it will trade with or in continuing to contract with this vendor.

**Affiliated Sweep Investments.** MSSB has a conflict of interest in selecting or recommending BDP or Money Market Funds as the Sweep Investment. *See Item 4.C above (Services, Fees and Compensation -- Additional Fees – Cash Sweeps – Bank Deposit Program and Money Market Funds), for more information.*

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

**Block Trades.** MSSB may direct some block trades to MSSB for execution, which blocks may include trades for other clients of MSSB. 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.

## **C. MSSB Acting as Portfolio Manager**

### **Description of Advisory Services**

In the Strategic Portfolios program, MSSB (acting through its Private Portfolio Group division) acts as the portfolio manager. *See Item 4.A above for a description of the services offered in the Strategic Portfolios program.*

### **Tailoring Services for Individual Clients**

In the program described in this Brochure, you may place reasonable restrictions on the investments in your account (as discussed above in Item 4.A).

### **Wrap Fee Programs**

In the Strategic Portfolios program, MSSB acts as both the wrap fee program sponsor and the portfolio manager. MSSB does not act as portfolio manager in any programs which are not wrap fee programs but are otherwise similar to Strategic Portfolios. In the Strategic Portfolios program, MSSB receives the entire wrap fee. *See Item 4.A above, for more information.*

### **Performance-Based Fees**

The program described in this Brochure does not charge performance-based fees.

### **Methods of Analysis and Investment Strategies**

In the Strategic Portfolios program, MSSB manages the client accounts based on the implementation of the Dow Dividend Strategy. Investing in securities involves risk of loss that you should be prepared to bear.

### **Policies and Procedures Relating to Voting Client Securities**

#### *Electing Who Votes Proxies.*

In the Strategic Portfolios program, clients who do not elect to vote proxies themselves direct MSSB to vote the proxies, and authorize MSSB to further delegate all proxy voting rights to a third party proxy voting and advisory service (the "Proxy Voting Service"). If the Proxy Voting Service does not have a recommendation for any particular proxy vote, MSSB will vote the proxy as it determines is appropriate.

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

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

**MSSB's Proxy Voting Policies and Procedures.** If you have delegated proxy voting authority to MSSB as provided above, you may obtain information as to how we voted proxies for your account during the particular annual period, from your Financial Advisor. You may also obtain a copy of MSSB's relevant proxy voting policies and procedures (including a copy of the Proxy Voting Service's policy guidelines and vote recommendations in effect from time to time), from your Financial Advisor.

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

## **Item 7: Client Information Provided to Portfolio Manager**

In the Strategic Portfolios program, MSSB is the portfolio manager and receives the Client Information from you.

## **Item 8: Client Contact with Portfolio Manager**

You may contact your Financial Advisor at any time during normal business hours.

# Item 9: Additional Information

## Disciplinary Information

This section contains information on certain legal and disciplinary events.

In this section, “MSDW” means Morgan Stanley DW Inc., a predecessor broker-dealer of MS&Co. and registered investment adviser that was merged into MS&Co. in April 2007. MS&Co. and Citigroup Global Markets Inc. (“CGM”) are predecessor investment adviser and broker-dealer firms of MSSB. “Citi” means Citigroup Inc., a former indirect part owner of MSSB.

- On September 27, 2007, MS&Co. entered into a LAWC with the Financial Industry Regulatory Authority (“FINRA”). FINRA found that, from October 2001 through March 2005, MSDW provided inaccurate information to arbitration claimants and regulators regarding the existence of pre-September 11, 2001 emails, failed to provide such emails in response to discovery requests and regulatory inquiries, failed adequately to preserve books and records, and failed to establish and maintain systems and written procedures reasonably designed to preserve required records and to ensure that it conducted adequate searches in response to regulatory inquiries and discovery requests. FINRA also found that MSDW failed to provide arbitration claimants with updates to a supervisory manual in discovery from late 1999 through the end of 2005. MS&Co. agreed, without admitting or denying these findings, to establish a \$9.5 million fund for the benefit of potentially affected arbitration claimants. In addition, MS&Co. was censured and agreed to pay a \$3 million regulatory fine and to retain an independent consultant to review its procedures for complying with discovery requirements in arbitration proceedings relating to its retail brokerage operations.
- On October 10, 2007, MS&Co. became the subject of an Order Instituting Administrative and Cease-And-Desist Proceedings (“October 2007 Order”) by the SEC. The October 2007 Order found that, from 2000 until 2005, MS&Co. and MSDW failed to provide to their retail customers accurate and complete written trade confirmations for certain fixed income securities in violation of the Exchange Act and MSRB rules. In addition, MS&Co. was ordered to cease and desist from committing or causing any future violations, and was required to pay a \$7.5 million penalty and to retain an independent consultant to review MS&Co.’s applicable policies and procedures. MS&Co. consented to the issuance of the October 2007 Order without admitting or denying the SEC’s findings.
- On December 18, 2007, MS&Co. became the subject of an Order Instituting Administrative Cease-and-Desist Proceedings (“December 2007 Order”) by the SEC. The December 2007 Order found that, from January 2002 until August 2003, MSDW (1) failed to reasonably supervise four Financial Advisors, with a view to preventing and detecting their mutual fund market-timing activities and (2) violated the Investment Company Act of 1940 by allowing multiple mutual fund trades that were placed or amended after the close of trading to be priced at that day’s closing net asset value. The December 2007 Order also found that, from 2000 through 2003, MSDW violated the Exchange Act by not making and keeping records of customer orders placed after the market close and orders placed for certain hedge fund customers in variable annuity sub-accounts. Without admitting or denying the SEC’s findings, MS&Co. agreed to a censure, to cease and desist from future violations of the applicable provisions, to pay a penalty of approximately \$11.9 million, to disgorge profits related to the trading activity (including prejudgment interest) of approximately \$5.1 million and to retain an independent distribution consultant.
- In May 2005, MS&Co. and MSDW discovered that, from about January 1997 until May 2005, their order entry systems did not check whether certain secondary market securities transactions complied with state registration requirements known as Blue Sky laws. This resulted in the improper sale of securities that were not registered in 46 state and territorial jurisdictions. MS&Co. and MSDW conducted an internal investigation, repaired system errors, self-reported the problem to all affected states and the New York Stock Exchange, identified transactions which were executed in violation of the Blue Sky laws, and offered rescission to affected customers. MS&Co. settled the state regulatory issues in a multi-state settlement with the 46 affected state and territorial jurisdictions. Under the settlement, MS&Co. consented to a cease and desist order with, and agreed to pay a total civil monetary penalty of \$8.5 million to be divided among, each of the 46 state and territorial jurisdictions. The first order was issued by Alabama on March 19, 2008, and orders are expected to be issued by subsequent states over the coming months.
- On August 13, 2008, MS&Co. agreed on the general terms of a settlement with the NYAG and the Office of the Illinois Secretary of State, Securities Department (“Illinois”) (on behalf of a task force of the North American Securities Administrators Association (“NASAA”)) with respect to the sale of auction rate securities (“ARS”). MS&Co. agreed, among other things, to repurchase at par approximately \$4.5 billion of illiquid ARS held by certain clients of MS&Co. which were purchased prior to February 13, 2008. Additionally, MS&Co. agreed to pay a total fine of \$35 million. Final agreements were entered into with the NYAG on June 2, 2009 and with Illinois on September 17, 2009. The Illinois agreement serves as the template for agreements with other NASAA jurisdictions.
- On March 25, 2009, MS&Co. entered into a LAWC with FINRA. FINRA found that, from 1998 through 2003, MSDW failed to reasonably supervise the activities of two Financial Advisors in one of its branches. FINRA found that these Financial Advisors solicited brokerage and investment advisory business from retirees and potential retirees of certain large companies by promoting unrealistic investment returns and failing to disclose material information. FINRA also held that MS&Co. failed to ensure that the securities and accounts recommended for the retirees were properly reviewed for appropriate risk disclosure, suitability and other concerns. MS&Co. consented, without admitting or denying the findings, to a censure, a fine of \$3 million, and restitution of approximately \$2.4 million plus interest to 90 former clients of the Financial Advisors.
- On June 8, 2016, the SEC entered into a settlement order with MSSB (“June 2016 Order”) settling an administrative

action. In this matter, the SEC found that MSSB willfully violated Rule 30(a) of Regulation S-P (17 C. F. R. § 248.30(a)) (the “Safeguards Rule”). In particular, the SEC found that, prior to December 2014, although MSSB had adopted written policies and procedures relating to the protection of customer records and information, those policies and procedures were not reasonably designed to safeguard its customers’ personally identifiable information as required by the Safeguards Rule and therefore failed to prevent a MSSB employee, who was subsequently terminated, from misappropriating customer account information. In determining to accept the offer resulting in the June 2016 Order, the SEC considered the remedial efforts promptly undertaken by MSSB and MSSB’s cooperation afforded to the SEC Staff. MSSB consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, and to pay a civil penalty of \$1,000,000.

- On January 13, 2017, the SEC entered into a settlement order with MSSB (“January 2017 Order”) settling an administrative action. The SEC found that from 2009 through 2015, MSSB inadvertently charged advisory fees in excess of what had been disclosed to, and agreed to by, its legacy CGM clients, and, from 2002 to 2009 and from 2009 to 2016, MS&Co. and MSSB, respectively, inadvertently charged fees in excess of what was disclosed to and agreed to by their clients. The SEC also found that MSSB failed to comply with requirements regarding annual surprise custody examinations for the years 2011 and 2012, did not maintain certain client contracts, and failed to adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Investment Advisers Act of 1940 (the “Advisers Act”). The SEC found that, in relation to the foregoing, MSSB willfully violated certain sections of the Advisers Act. In determining to accept the offer resulting in the January 2017 Order, the SEC considered the remedial efforts promptly undertaken by MSSB. MSSB consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, to certain undertakings related to fee billing, books and records and client notices and to pay a civil penalty of \$13,000,000.

- On February 14, 2017, the SEC entered into a settlement order with MSSB settling an administrative action. The SEC found that from March 2010 through July 2015, MSSB solicited approximately 600 non-discretionary advisory accounts to purchase one or more of eight single inverse exchange traded funds (“SIETFs”), without fully complying with its internal written compliance policies and procedures related to these SIETFs, which among other things required that clients execute a disclosure notice, describing the SIETF’s features and risks, prior to purchasing them, for MSSB to maintain the notice, and for subsequent related reviews to be performed. The SEC found that, despite being aware of deficiencies with its compliance and documentation of the policy requirements, MSSB did not conduct a comprehensive analysis to identify and correct past failures where the disclosure notices may not have been obtained and to prevent future violations from occurring. The SEC found that, in relation to the foregoing, MSSB

willfully violated section 206(4) of the Investment Advisers Act of 1940 and Rule 206(4)-7 thereunder. MSSB admitted to certain facts and consented to a censure, to cease and desist from committing or causing future violations, and to pay a civil penalty of \$8,000,000.

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

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

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

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

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

**Broker-Dealer Registrations.** As well as being a registered investment advisor, MSSB is registered as a broker-dealer.

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

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

These restrictions may adversely impact client account performance.

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

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

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

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

Related persons of MSSB act as a general partner, administrative agent or special limited partner of a limited partnership or managing member or special member of a limited liability company to which such related persons serve as adviser or sub-adviser and in which clients have been solicited in a brokerage or advisory capacity to invest. In some cases, the general partner of a limited partnership is entitled to receive an incentive allocation from a partnership.

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

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

## **Code of Ethics**

The MSSB US Investment Advisory Code of Ethics (“Code”) applies to MSSB’s employees, supervisors, officers and directors engaged in offering or providing investment advisory products and/or services (collectively, the “Employees”). In essence, the Code prohibits Employees from engaging in securities transactions or activities that involve a material conflict of interest, possible diversion of a corporate opportunity, or the appearance of impropriety. Employees must always place the interests of MSSB’s clients above their own and must never use knowledge of client transactions acquired in the course of their work to their own advantage. Supervisors are required to use reasonable supervision to detect and prevent any violations of the Code by the individuals, branches and departments that they supervise.

The Code generally operates to protect against conflicts of interest either by subjecting Employee activities to specified limitations (including pre-approval requirements) or by

prohibiting certain activities. Key provisions of the Code include:

- The requirement for certain Employees, because of their potential access to non-public information, to obtain their supervisors’ prior written approval or provide pre-trade notification before executing certain securities transactions for their personal securities accounts;
- Additional restrictions on personal securities transaction activities applicable to certain Employees (including Financial Advisors and other MSSB employees who act as portfolio managers in MSSB investment advisory programs);
- Requirements for certain Employees to provide initial and annual reports of holdings in their Employee securities accounts, along with quarterly transaction information in those accounts; and
- Additional requirements for pre-clearance of other activities including, but not limited to, Outside Business Activities, Gifts and Entertainment, and Marketing and Promotional Activities.

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

*See Item 6.B above, for a discussion of Conflicts of Interest.*

## **Reviewing Accounts**

At account opening, your Financial Advisor and his or her Branch Manager (or the Branch Manager’s designee) confirms that, the account is a suitable investment for you.

Your Financial Advisor is then responsible for reviewing your account on an ongoing basis.

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

## **Client Referrals and Other Compensation**

*See Item 6.B above*

MSSB may compensate affiliated and unrelated third parties for client referrals in accordance with Rule 206(4)-3 of the Advisers Act. If the client invests in an investment advisory program, the compensation paid to any such entity will typically consist of an ongoing cash payment stated as a percentage of MSSB’s advisory fee or a one-time flat fee, but may include cash payments determined in other ways.

## **Financial Information**

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

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

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

## Exhibit A

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

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

Since the dates below (“Effective Dates”), the following “Retirement Plan Accounts” (IRAs, Employee Benefit Trusts (“EBTs”), Retirement Plan Manager (“RPM”) accounts and Versatile Investment Program (“VIP”) accounts) and Coverdell Education Savings Accounts (“CESAs”) have generally been effecting temporary sweep transactions of new free credit balances into Deposit Accounts established under the Bank Deposit Program:

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

Before the Effective Dates, MSSB affected such sweep transactions using the Morgan Stanley money market funds listed in the table below as follows:

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

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

For Retirement Plan Accounts that swept into affiliated money market funds before the Effective Dates and continue to hold cash amounts in these funds or that now select one of these funds:

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

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

### **Interest Earned on Float**

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

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

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

Generally, with respect to such assets awaiting investment:

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

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

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

- The rate of Advisory Fee and Distribution and Service Fees (including 12b-1 fees) (whether in basis points or dollars) may not be increased without first obtaining shareholder approval.

- Expenses designated as “Other Expenses” include all expenses not otherwise disclosed in the table that were deducted from each fund’s assets or charged to all shareholder accounts in the stated fiscal year (and may change from year to year).

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

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

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

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

The fund expense information below reflects the most recent information available to us as of January 31, 2017, and is subject to change. Please refer to the funds’ current prospectuses, statements of additional information and annual reports for more information.

Fund	Advisory Fee	Distribution and Service Fees	Other Expenses	Total Annual Fund Operating Expenses	Total Annual Fund Operating Expenses After Fee Waivers and/or Expense Reimbursements
Government Securities-Participant					
Share Class	0.15%	0.50%	0.06%	0.71%	0.70%
Active Assets Government Trust	0.10%	None	0.06%	0.16%	0.15%
U.S. Government Money Market Trust	0.38%	0.10%	0.11%	0.59%	0.16%