

# Form ADV Firm Brochure

## Morgan Stanley Private Wealth Management, a Division of Morgan Stanley Smith Barney LLC

PWM Wealth Management Services

**March 30, 2015**

2000 Westchester Avenue  
Purchase, NY 10057  
Tel: (914) 225-1000  
Fax: (614) 283-5057  
[www.morganstanley.com](http://www.morganstanley.com)

This 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 [pwmadv\\_clientservice@ms.com](mailto:pwmadv_clientservice@ms.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about MSSB also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the SEC does not imply a certain level of skill or training.

## Item 2: Material Changes

This section identifies and discusses material changes to the ADV Brochure since the version of this Brochure dated March 28, 2014. For more details on any particular matter, please see the item in this ADV Brochure referred to in the summary below.

**Compensation for Advisory Services.** The maximum annual fee for the investments made through the WMS NDA program is 2.5% of assets calculated annually. (Item 5.A)

## Item 3: Table of Contents

Item 1: Cover Page .....	1
Item 2: Material Changes .....	2
Item 3: Table of Contents .....	3
Item 4: Advisory Business .....	4
A. Description of MSSB, Principal Owners .....	4
B. Description of Advisory Services .....	4
C. Customized Advisory Services and Client Restrictions .....	5
D. Portfolio Management Services to Wrap Fee Programs .....	6
E. Assets Under Management (“AUM”).....	6
Item 5: Fees and Compensation .....	6
A. Compensation for Advisory Services .....	6
B. Payment of Fees.....	6
C. Prepayment of Fees .....	7
D. Compensation for the Sale of Securities or Other Investment Products .....	8
Item 6: Performance Based Fees and Side by Side Management .....	8
Item 7: Types of Clients.....	8
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss .....	8
A. Method of Analysis and Investment Strategies .....	8
B. Material, Significant, or Unusual Risks Relating to Investment Strategies .....	8
C. Risks Associated with Particular Types of Securities.....	8
Item 9: Disciplinary Information .....	10
Item 10: Other Financial Industry Activities and Affiliations .....	13
A. Broker-Dealer Registration Status .....	13
B. Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Adviser Registration Status .....	13
C. Material Relationships or Arrangements with Industry Participants .....	13
D. Material Conflicts of Interest Relating to Other Investment Advisers.....	17
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	18
A. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	18
B. Securities in Which You or a Related Person Has a Material Financial Interest .....	19
C. Investing in Securities That You or a Related Person Recommends to Clients or Has a Financial Interest In .....	19
D. Conflicts of Interest Created by Contemporaneous Trading.....	19
Item 12: Brokerage Practices .....	19
A. Brokerage Practices .....	19
B. Order Aggregation .....	20
Item 13: Review of Accounts.....	20
A. Frequency and Nature of Review of Client Accounts .....	20
B. Content and Frequency of Account Reports to Clients.....	20
Item 14: Client Referrals and Other Compensation .....	20
Item 15: Custody.....	21
Item 16: Investment Discretion .....	21
Item 17: Voting Client Securities.....	21
Item 18: Financial Information .....	22
Item 19: Requirements for State- Registered Adviser .....	22

## Item 4: Advisory Business

### A. Description of MSSB, Principal Owners

Morgan Stanley Private Wealth Management (“PWM”) is a division of Morgan Stanley Smith Barney LLC (“MSSB”, “we” or “us”). MSSB 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 (“you”, “your” or “Client”) many different advisory programs. Many of MSSB’s advisory services are provided by its Consulting Group business unit (“CG”). You may obtain brochures for other MSSB investment advisory programs at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) or by asking your Private Wealth Advisor (“PWA”).

For additional information about MSSB, a copy of MSSB’s Form ADV Part I is available upon request. Form ADV Part I is also publicly available at the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You may obtain brochures for other MSSB investment advisory programs at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) or by asking your PWA.

### B. Description of Advisory Services

#### WEALTH MANAGEMENT SERVICES

In the Wealth Management Services (“WMS”) Program, PWM assists high net worth clients in developing asset allocation frameworks, strategic and tactical asset allocation, investment manager, mutual fund, exchange traded fund and alternative investment research and recommendations, and consolidated performance reporting.

**Creation of an Asset Allocation Framework.** As part of the WMS Agreement, PWM assists clients in developing their investment objectives and preparing an asset allocation framework (“AAF”) upon which PWM’s recommendations are based. The AAF typically addresses client’s investment objectives, investment time horizon and portfolio preferences and asset class restrictions, and includes a strategic asset allocation and tactical ranges for the portfolio.

**Asset Allocation Advice.** On an ongoing basis, PWM provides recommendations regarding strategic and tactical asset allocation based on the Client’s AAF.

**Investment Advice.** PWM provides ongoing investment and manager recommendations with respect to Client’s assets that are invested through one or more of the following investment advisory programs offered by MSSB (collectively, the “Investment Options”): affiliated and unaffiliated investment managers who manage separately managed accounts through Fiduciary Services (“FS”), Consulting and Evaluation Services (“CES”) or the PWM Manager Assessment Program (“MAP”)

(collectively, “SMA Managers”); (2) Global Investment Solutions (“GIS”); the Portfolio Management program (“PM”); affiliated and unaffiliated Pooled Investment Vehicles available on a non-discretionary advisory basis through WMS Non-Discretionary (“NDA”) or approved by MSSB’s Global Investment Manager Analysis Group, and cash and cash equivalents (including sweep options) offered through WMS NDA. For purposes of this ADV, the term “Pooled Investment Vehicles” includes open end funds registered as investment companies with the Securities and Exchange Commission (“Mutual Funds”) and investment vehicles that are not registered with the SEC (“Alternative Investment Funds”). Pooled Investment Vehicles also include exchange traded funds and exchange traded trusts (collectively, “ETFs”) and registered closed end funds (“CEFs”, collectively the “Funds”).

For more information about the Investment Options or other investment advisory services offered by MSSB, as well as assistance in determining which service may be best suited to your needs and objectives, please contact your Private Wealth Advisor or refer to [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV).

**Due Diligence Services:** In the FS and CES programs, MSSB provides due diligence and monitoring services with respect to SMA Managers and certain Mutual Funds and ETFs through its Global Investment Manager Analysis Group. PWM conducts its own due diligence on managers through its Manager Assessment Program, a proprietary investment management scoring system that assesses investment manager products in that database. In addition, MSSB or an affiliated or unaffiliated due diligence service provider provides due diligence and monitoring services with respect to certain Alternative Investment Funds. Such due diligence and monitoring currently consists of evaluating various qualitative and quantitative factors including the investment strategy, methodology and ongoing execution by the SMA Manager or Alternative Investment Fund in implementing such strategy, staff turnover and the track record and performance of the SMA Manager or Alternative Investment Fund versus its benchmark and peer group. This due diligence and monitoring process may change, from time to time, at the discretion of MSSB (or, in the case of an Alternative Investment Fund, the respective due diligence service provider). Please refer to the applicable MSSB Form ADV for more information about the diligence process applicable to these specific Investment Options.

**Non-Researched Managers.** Clients also may select investment managers outside of those covered by MSSB’s Global Investment Manager Analysis Group or PWM due diligence. Such outside managers, if qualified, will be offered through the Investment Management Services (“IMS”) program. MSSB does not evaluate or make any representations concerning such investment managers.

**Performance Reporting.** PWM provides clients with customized performance reports. The reports may include comparisons to recognized benchmarks and market segments. At Client’s request, PWM will consider the asset classes of assets that are not invested with or through one of MSSB’s investment advisory programs (“Client Requested Assets”) for

asset allocation purposes and will report the performance of those investments relative to an appropriate benchmark, but will not otherwise provide due diligence or monitoring services on such assets. For the avoidance of doubt, Client Requested Assets are not considered Investment Options, as defined above. Including Client Requested Assets in performance reports does not constitute investment advice or a recommendation or endorsement by MSSB of any such investment(s).

**Account Opening and Other Services.** To enroll in the WMS Program, Clients must enter into a WMS Master Agreement. In addition, in order for a Client to invest their assets in an Investment Option, Clients must execute the investment management or wrap fee agreements applicable to the underlying program(s). Finally, Clients who invest in Alternative Investment Funds or, SMA Managers through the CES, MAP and IMS program, may be required to enter into separate agreements with the SMA Manager or funds, as applicable.

As an administrative convenience, Clients can appoint MSSB as their agent and attorney in fact to execute agreements corresponding to the applicable Investment Option ("Agreements"). This power is limited and, does not give MSSB the discretion to make investment decisions on the Client's behalf. As part of the WMS Master Agreement, Clients receive copies of the Agreements and agree to provide MSSB with written instructions, through the use of a formal direction letter, directing MSSB to act on specific investment decisions. In this manner, the Client is agreeing to bind themselves to the terms and conditions in the Agreements.

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

To receive trustee services through CG Trust Services, you and your attorney will create separate agreements with an external trust company to govern the trust and you will appoint a trustee to act on your behalf; in certain situations, you may appoint separate administration and investment trustees. You or your designees will sign these separate agreements and may pay a separate fee to your attorney. External trust companies and MSSB typically charge separate fees to CG Trust Services client accounts for their respective services, which may be higher than fees charged to clients outside of the CG Trust Services Program for comparable services. In certain limited circumstances, MSSB will compensate an external trust company for the services it provides to a client account. Neither MSSB nor your PWA will be paid by the external trust company. In certain circumstances, MSSB or an affiliate may pay compensation to

or receive an indirect economic benefit from an unrelated third party (see: "Client Referrals and Other Compensation", Item 14 below).

As part of CG Trust Services, you or your selected trustee, with investment authority, may delegate investment discretion directly to MSSB or receive non-discretionary investment advisory services through the programs offered by Consulting Group. Additionally, *certain* external trust companies have contractually agreed to use the services (including MSSB custody services) described in this Brochure for each CG Trust Services client (and in some cases, former CG Trust Services clients), unless the client has issued contrary instructions, and so long as such use of MSSB services will not cause the external trust company to violate any duty or obligation.

Regardless of the external trust company you select, unless you have appointed another custodian, you can custody your assets at MSSB through CG Trust Services. Accounts outside of CG Trust Services may be subject to different custody arrangements. MSSB has made arrangements to have a number of external trust companies participate in CG Trust Services, as described above. While these arrangements are designed to enhance the administrative and operational experience of clients who appoint such an external trust company and MSSB to service the same assets, these arrangements could pose a conflict of interest for MSSB and its representatives by creating an incentive for them to introduce their clients to those external trust companies who have such arrangements with CG Trust Services over other external trust companies.

The decision to participate in CG Trust Services and the selection of the trustee and attorney are your decision and responsibility. MSSB and its affiliates do not provide tax and legal advice (see: "Tax and Legal Considerations", Item 8 below). For additional information and to determine eligibility, please contact your PWA.

## **C. Customized Advisory Services and Client Restrictions**

### **Customized Advisory Services**

We tailor our recommendations to the individual needs of our clients. As described above, MSSB relies on each Client's care, completeness and clarity in responding to the questionnaire or profile, as their responses form the factual basis for their individual financial plan.

### **Client Imposed Restrictions**

A Client's AAF may contain reasonable restrictions on account investments. For example, you may restrict MSSB from buying specific securities, a category of securities (e.g., tobacco companies), SMA Managers or Pooled Investment Vehicles. If a Client restricts a category of securities, we will determine which specific securities fall within the restricted category. In doing so, we may rely on outside sources (e.g. standard industry codes and research provided by independent service providers). Any restrictions you impose on individual

securities have no effect on the holdings in Pooled Investment Vehicles since they operate in accordance with the investment objectives and strategies described in their prospectuses or offering memorandum.

## **D. Portfolio Management Services to Wrap Fee Programs**

MSSB does not offer the WMS Program through any third party wrap fee platforms.

## **E. Assets Under Management (“AUM”)**

MSSB managed client assets of \$783,409,682,555 as of December 31, 2014. Of this amount, MSSB managed \$299,334,359,159 on a discretionary basis and \$484,075,323,396 on a non-discretionary basis. These amounts represent the client assets in all of our investment advisory programs. We calculated them using a different methodology than the “assets under management” we report in our ADV Part I filed with the SEC.

# **Item 5: Fees and Compensation**

## **A. Compensation for Advisory Services**

Fees for the programs described in this Brochure are negotiable and may differ among clients based on a number of factors, including the type and size of the account or client relationship.

As part of the WMS Agreement, clients negotiate the fee(s) applicable to the underlying advisory programs. For purposes of the WMS Agreement, these fees are broken down into three categories (1) WMS Fees, (2) Management Fees and (3) Reporting Only Fees.

“WMS Fees” apply to assets invested with or into separately managed accounts (SMA Managers), Pooled Investment Vehicles, and cash (if applicable). These fees generally cover non-discretionary asset allocation advice and investment recommendations, diligence and monitoring of SMA Managers, consolidated client reporting, custody of assets with MSSB, execution of transactions through MSSB or its affiliates and other administrative fees and expenses.

“Management Fees” apply to investments with managers hired through the FS program and investments made through the PM and GIS programs. In the case of investments made through the FS program, the Management Fees includes fees paid to the underlying investment managers and certain program fees retained by MSSB that are not shared with your PWA. In the case of investments made through PM and GIS, Management Fees include discretionary investment advice, the execution of transactions through MSSB or its affiliates and custody of assets with MSSB.

For a description of the FS, PM, GIS and other programs offered by MSSB, including maximum annual fees, please refer to the applicable Form ADV wrap fee brochures.

At the client’s request, PWM may, on a brokerage basis, charge a “Reporting Only Fee” of up to 0.25% for consolidating the performance of investments in SMA Managers or Pooled Investment Vehicles that are not on our approved wrap platforms but which are nonetheless part of a client’s overall asset allocation.

The maximum annual fee for the investments made through the WMS NDA program is 2.5% of assets calculated annually.

## **B. Payment of Fees**

Fees for the services described in this ADV are charged based on the terms in the Program Agreements. Clients generally authorize MSSB to deduct the fee and any other charges from the account on or following the date they are payable. Clients with Delivery Versus Payment (“DVP”) accounts may alternatively, at our discretion, receive an invoice for the fee and other charges from us. MSSB reserves the right to liquidate a portion of the account assets to cover the fee at any time. Liquidation may affect the relative balance of the account, and also may have tax consequences and/or may cause the account to be assessed transaction charges. Additional Fees and Expenses

The fees described in Item 5(A) above, do not cover:

- the costs of investment management fees and other expenses charged by Pooled Investment Vehicles (see below for more details) or SMA Managers in the CES, MAP and IMS programs
- “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
- account closing/transfer costs
- processing fees or
- certain other costs or charges that may be imposed by third parties (including, among other things, odd-lot differentials, transfer taxes, foreign custody fees, exchange fees, supplemental transaction fees, regulatory fees and other fees or taxes that may be imposed pursuant to law).

## **Funds in Advisory Programs**

Investing in Funds is more expensive than other investment options. In addition to our fees, you pay the fees and expenses of the Funds in which your accounts are invested. Fund fees and expenses are charged directly to the pool of assets the Fund invests in and are reflected in each Fund’s share price or NAV. These fees and expenses are an additional cost to you and are not included in the fee amount in your account statements. Each Mutual Fund and ETF expense ratio (the total amount of fees and expenses charged by the Fund) is

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

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

## **Expense Payments, Data Analytics and Administrative Service Fees**

MSSB receives expense payments and fees for data analytics, recordkeeping and related services, which are more fully described below. Administrative fees may be viewed in part as a form of revenue-sharing if and to the extent they exceed what the mutual fund would otherwise have paid for these services.

MSSB provides fund families or their affiliated service providers with opportunities to sponsor meetings and conferences and grants them access to our branch offices and advisors for educational, marketing and other promotional efforts. Fund representatives may work closely with our branch offices and advisors to develop business strategies and plan promotional and educational activities. In addition, MSSB typically receives payments from funds or their affiliates in connection with these promotional efforts to help offset expenses incurred for sales events and training programs as well as client seminars, conferences and meetings. Fund families independently decide what they will spend on these activities and may also invite our Financial Advisors to attend fund family sponsored events. Expense payments may include meeting or conference facility rental fees and hotels, meals and travel expenses.

Certain fund families (referred to as "Global Partners" or "Emerging Partners") dedicate significant financial and staffing resources to these efforts and may receive supplemental sales data analytics as well as additional opportunities to sponsor firm events and promote their funds to our advisors and clients. Global Partners commit \$550,000 per year for training and sales meeting expenses and pay a fee of \$200,000 per year for data analytics. Emerging Partners commit \$250,000 per year for training and sales expenses and pay a fee of \$100,000 per year for data analytics. These facts present a conflict of interest for MSSB and our advisors to the extent they lead us to focus on funds from those fund families, including our Global and Emerging Partners, that commit significant financial and staffing resources to promotional and educational activities instead of on funds from fund families that do not purchase sales data analytics or do not commit similar resources to these activities. In order to mitigate this conflict, advisors and branch office managers do not receive additional compensation for recommending fund families sponsored by our Global or Emerging Partners or any other fund families that provide significant sales and training support. Global and Emerging Partners may present a certain number of funds

or other products to MSSB's Global Investment Manager Analysis Group, known as "GIMA" (formerly known as CG Investment Advisor Research Group or "IAR") subject to a shorter timeline for GIMA to begin its review of such products if there is a backlog at the time the fund or product is being considered. However, products and funds offered by the Global and Emerging Partners are subjected to the same GIMA due diligence process and standards as all other investment products and are not given preference in terms of approval by GIMA for offering in MSSB advisory programs.

MSSB selects the Global and Emerging Partners fund families based on a number of quantitative and qualitative criteria. Our Global Partners are denoted by an asterisk on the Revenue-Sharing Fund Families list on our website at [http://www2.morgnastanley.com/wealth/investment\\_solutions/mutualfunds.asp](http://www2.morgnastanley.com/wealth/investment_solutions/mutualfunds.asp) and clicking on "Revenue-Sharing Arrangements" at the bottom of the page.

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

## **Administrative Service Fee**

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

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

## **C. Prepayment of Fees**

With respect to the programs described in this document, MSSB does not offer clients the ability to pay for fees in advance.

## **D. Compensation for the Sale of Securities or Other Investment Products**

Clients do not pay any sales charges for purchases of Mutual Funds in the investment advisory programs described in this Brochure.

Clients generally have the ability to purchase investment products that we recommend through other brokers or agents that are not affiliated with MSSB.

Commissions do not provide MSSB's primary source of revenue from advisory accounts.

## **Item 6: Performance Based Fees and Side by Side Management**

This item is not applicable to the program described in this Brochure.

## **Item 7: Types of Clients**

MSSB's clients include individuals, trusts, banking or thrift institutions, pooled investment vehicles (e.g., hedge funds), charitable organizations, corporations, other businesses, state or municipal government entities, investment clubs and other entities.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

### **A. Method of Analysis and Investment Strategies**

PWM assists in developing customized solutions for each Client in the WMS program. Each AAF outlines the Client's financial goals, risk tolerance, and time horizon, all of which ultimately provide the basis for Strategic and Tactical Investment frameworks, appropriate asset classes and assistance with SMA Manager and Pooled Investment Vehicle selection. While this framework seeks to limit risk exposure, investing in securities involves risk of loss that Client's should be prepared to bear. Average expected return of each asset class within a portfolio as well as historical risk and correlations between asset classes, are applied when conducting the analysis.

### **B. Material, Significant, or Unusual Risks Relating to Investment Strategies**

All trading in an account is at the client's 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 Private Wealth Advisor's past performance with

respect to your accounts does not predict future performance with respect to any particular account.

The implementation of a customized asset allocation does not assure profit or protect against loss in declining financial markets. Certain assumptions may be made in analyses that are used to make asset allocation decisions. Any change in these assumptions may have a material impact on the client's portfolio.

The projections or other information generated by an asset allocation analysis regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results.

PWM may provide assistance with manager selection and implementation. Investing with a money manager or in an investment product may involve a high degree of risk, including loss of your entire investment. In addition, there is no guarantee that any investment product or manager will have positive performance or achieve any investment, tax or accounting objectives or track or outperform any designated benchmark.

## **C. Risks Associated with Particular Types of Securities**

Certain investment strategies that Private Wealth Advisors may use in the programs have specific risks, including those associated with investments in common stock, fixed income securities, American Depositary Receipts, and Funds. You should consult with your Private Wealth Advisor for more details regarding the specific risks associated with the investments in your account.

### ***Risk Relating to Investments in Emerging Countries***

Investing in the equity markets of emerging countries entails certain risks and special considerations not associated with investing in the U.S. and more established markets. Some emerging countries have laws and regulations that currently preclude direct foreign investment in the securities of their companies. However, indirect foreign investment in the securities of companies listed and traded on the stock exchanges in these countries is permitted through investment funds, which have been specifically authorized. In order to gain exposure to such markets, MSSB may invest client assets in these investment funds. In addition, MSSB may invest client assets in investment funds that invest in securities that MSSB has the ability to purchase directly. If MSSB invests in such investment funds, the client will bear not only its own expenses with respect to such investments (such as investment management and custody fees), but also will indirectly bear similar expenses of the underlying investment funds.

Certain of the investment funds referred to in the preceding paragraph are advised by MSSB or its affiliates. MSSB may invest in these investment funds for clients for which it manages assets. If MSSB does elect to make an investment in such an investment fund, MSSB will ordinarily purchase the securities of such investment fund in the secondary



market; however, MSSB may receive a fee from its clients with respect to assets invested in such funds as well as a fee from such funds for MSSB's investment management services to the funds.

#### ***Risk Relating to Alternatives***

MSSB may recommend that clients allocate a portion of their assets to investment managers that follow alternative investment strategies, such as hedge fund investments. These strategies may be speculative, entail substantial risk and may not be suitable for all investors, nor do they represent a complete investment program. Many alternative investment managers and their related products are not subject to the same regulatory requirements as traditional investments.

Alternative investments may include specific risks associated with limited liquidity, the use of leverage, arbitrage, short sales, options, futures and derivative instruments. There can be no assurances that a manager's strategy (hedged or otherwise) will be successful or that a manager will employ such strategies with respect to all or any portion of a portfolio. Clients should recognize that they may bear asset-based fees and expenses at the manager-level, and indirectly, fees, expenses and performance-based compensation. Performance-based compensation may create an incentive for the managers that may receive performance-based compensation to make investments that are riskier and more speculative than would be the case if this special allocation were not made. Because the individual managers make trading decisions independently of each other, it is possible that they may, on occasion, hold substantial positions in the same security or group of securities at the same time. This possible lack of diversification may subject the client's investments to more volatility than would be the case if the client's assets were more widely diversified.

#### ***Risk Relating to ETFs***

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

Most ETFs, like all mutual funds, are registered investment companies under the Investment Company Act of 1940. However, ETFs that invest exclusively in physical assets, such as gold, and are not registered investment companies. These ETFs will not have the protections associated with ownership of shares in a registered investment company. For example, these ETFs are not subject to the prohibition on registered investment companies dealing with affiliates, do not have an independent board of trustees, and are not subject to requirements with respect to, among other things, diversification and the prohibition on the suspension of redemptions.

#### ***Risk Relating to REITs***

Certain Programs offer real estate-related investment disciplines, which typically invest in common stocks of U.S. corporations. Almost all such investments will be treated for tax purposes as investments in real estate investment trusts ("REITs"). Although it is unlikely that such investments will cause a tax-exempt investor to recognize "unrelated business taxable income" ("UBTI"), no assurances can be made that no UBTI will be recognized. If any investment causes a tax-exempt investor to recognize UBTI, and that tax-exempt investor is a charitable remainder trust, all of the income of the charitable remainder trust would be subject to federal income tax for the tax year in which the UBTI was recognized. Therefore, charitable remainder trusts should consult with a tax adviser before investing in real estate investment disciplines.

#### ***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.

#### ***Risks Related to Minimum Denominations in Fixed Income Securities***

MSSB may not be able to execute transactions in certain fixed income securities (specifically including municipal bonds) in a client's account when they do not meet the minimum denomination and increment requirements established by the issuer. In certain cases, this may result in an inability to rebalance a portion of a client's fixed income portfolio or liquidate a portfolio of fixed income securities for tax harvesting or other purposes. To the extent permitted by law, MSSB will use its best efforts to assist advisory clients in selling fixed income securities that may not meet these minimums but cannot guarantee that a market will be available in which to sell such securities, nor the price at which such securities would sell if such markets were to exist.

#### ***Tax and Legal Considerations***

Changing Investment Options may result in sales of securities and subject you to additional income tax obligations. Consult your independent tax or legal advisor with respect to the services described in this Brochure, as MSSB and its affiliates do not provide tax or legal advice.

## Item 9: 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 Smith Barney and/or Citigroup Global Markets Inc. (“CGM”) are predecessor broker-dealer firms of MSSB.

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

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

The SEC censured SBFM and CGM and ordered them to cease and desist from violations of sections 206(1) and 206(2) of the Advisers Act. The order required Citi to pay \$208.1 million, including \$109 million in disgorgement of

profits, \$19.1 million in interest, and a civil money penalty of \$80 million. Approximately \$24.4 million has already been paid to the Smith Barney Funds, primarily through fee waivers. The remaining \$183.7 million, including the penalty, has been paid to the U.S. Treasury.

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

- In a LAWC dated August 1, 2005, the NASD found that MSDW failed to establish and maintain a supervisory system, including written procedures, reasonably designed to review and monitor MSDW’s fee-based brokerage business, between January 2001 and December 2003. Without admitting or denying the allegations, MSDW consented to the described sanctions and findings and was censured and fined \$1.5 million, and agreed to the payment of restitution to 3,549 customers in the total amount of approximately \$4.7 million, plus interest.
- The SEC alleged that MS&Co. violated the Exchange Act by inadvertently failing to timely produce emails to the SEC staff pursuant to subpoenas in the SEC’s investigation into MS&Co.’s practices in allocating shares of stock in IPOs and an investigation into conflicts of interest between MS&Co.’s research and investment banking practices. Without admitting or denying the allegations, MS&Co. consented to a final judgment on May 12, 2006 in which it was permanently restrained and enjoined from violating the Exchange Act. MS&Co. agreed to make payments aggregating \$15 million, which amount was reduced by \$5 million contemporaneously paid by MS&Co. to the NASD and the NYSE in related proceedings. MS&Co. also agreed to notify the SEC, the NASD and the NYSE that it has adopted and implemented policies and procedures reasonably designed to ensure compliance with the Exchange Act. MS&Co. also agreed to provide annual training to its employees responsible for preserving or producing electronic communications and agreed to retain an independent consultant to review and comment on the implementation and effectiveness of the policies, procedures and training.
- On June 27, 2006, the SEC announced the initiation and concurrent settlement of administrative cease and desist proceedings against MS&Co. and MSDW for failing to maintain and enforce adequate written policies and procedures to prevent the misuse of material nonpublic information. The SEC found that from 1997 through 2006,

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

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

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

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

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

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

issuance of the October 2007 Order without admitting or denying the SEC's findings.

- On December 18, 2007, MS&Co. became the subject of an Order Instituting Administrative Cease-and-Desist Proceedings ("December 2007 Order") by the SEC. The December 2007 Order found that, from January 2002 until August 2003, MSDW (1) failed to reasonably supervise four Financial Advisors, with a view to preventing and detecting their mutual fund market-timing activities and (2) violated the Investment Company Act of 1940 by allowing multiple mutual fund trades that were placed or amended after the close of trading to be priced at that day's closing net asset value. The December 2007 Order also found that, from 2000 through 2003, MSDW violated the Exchange Act by not making and keeping records of customer orders placed after the market close and orders placed for certain hedge fund customers in variable annuity sub-accounts. Without admitting or denying the SEC's findings, MS&Co. agreed to a censure, to cease and desist from future violations of the applicable provisions, to pay a penalty of approximately \$11.9 million, to disgorge profits related to the trading activity (including prejudgment interest) of approximately \$5.1 million and to retain an independent distribution consultant.
- In May 2005, MS&Co. and MSDW discovered that, from about January 1997 until May 2005, their order entry systems did not check whether certain secondary market securities transactions complied with state registration requirements known as Blue Sky laws. This resulted in the improper sale of securities that were not registered in 46 state and territorial jurisdictions. MS&Co. and MSDW conducted an internal investigation, repaired system errors, self-reported the problem to all affected states and the New York Stock Exchange, identified transactions which were executed in violation of the Blue Sky laws, and offered rescission to affected customers. MS&Co. settled the state regulatory issues in a multi-state settlement with the 46 affected state and territorial jurisdictions. Under the settlement, MS&Co. consented to a cease and desist order with, and agreed to pay a total civil monetary penalty of \$8.5 million to be divided among, each of the 46 state and territorial jurisdictions. The first order was issued by Alabama on March 19, 2008, and orders are expected to be issued by subsequent states over the coming months.
- On August 13, 2008, MS&Co. agreed on the general terms of a settlement with the NYAG and the Office of the Illinois Secretary of State, Securities Department ("Illinois") (on behalf of a task force of the North American Securities Administrators Association ("NASAA")) with respect to the sale of auction rate securities ("ARS"). MS&Co. agreed, among other things, to repurchase at par approximately \$4.5 billion of illiquid ARS held by certain clients of MS&Co. which were purchased prior to February 13, 2008. Additionally, MS&Co. agreed to pay a total fine of \$35 million. Final agreements were entered into with the NYAG on June 2, 2009 and with Illinois on September 17, 2009. The Illinois agreement serves as the template for agreements with other NASAA jurisdictions.
- On November 13, 2008, in connection with the settlement of a civil action arising out of an investigation by the SEC into CGM's underwriting, marketing and sale of ARS, CGM, without admitting or denying the allegations of the SEC's complaint, except as to those relating to personal and subject matter jurisdiction, which were admitted, consented to the entry in the civil action of a Judgment As To Defendant Citigroup Global Markets Inc. ("November 2008 Judgment"). Thereafter, on December 11, 2008, the SEC filed its civil action in the federal district court for the Southern District of New York ("Court"). The November 2008 Judgment, which was entered on December 23, 2008 (i) permanently enjoined CGM from directly or indirectly violating section 15(c) of the Exchange Act; (ii) provides that, on later motion of the SEC, the Court is to determine whether it is appropriate to order that CGM pay a civil penalty pursuant to section 21(d)(3) of the Exchange Act, and if so, the amount of the civil penalty; and (iii) ordered that CGM's Consent be incorporated into the November 2008 Judgment and that CGM comply with all of the undertakings and agreements in the Consent, which include an offer to buy back at par certain ARS from certain customers. The SEC's complaint alleged that (1) CGM misled tens of thousands of its customers regarding the fundamental nature of and risks associated with ARS that CGM underwrote, marketed and sold; (2) through its financial advisers, sales personnel and marketing materials, CGM misrepresented to customers that ARS were safe, highly liquid investments comparable to money market instruments; (3) as a result, numerous CGM customers invested in ARS funds they needed to have available on a short-term basis; (4) in mid-February 2008, CGM decided to stop supporting the auctions; and (5) as a result of the failed auctions, tens of thousands of CGM customers held approximately \$45 billion of illiquid ARS, instead of the liquid short-term investments CGM had represented ARS to be. CGM reached substantially similar settlements with the NYAG and the Texas State Securities Board ("TSSB"), although those settlements were administrative in nature and neither involved the filing of a civil action in state court. The settlements with the NYAG and the TSSB differed somewhat from the settlement with the SEC in that the state settlements (a) made findings that CGM failed to preserve certain recordings of telephone calls involving the ARS trading desk; and (b) required CGM to refund certain underwriting fees to certain municipal issuers. In addition, as part of the settlement with New York, CGM paid a civil penalty of \$50 million. CGM also agreed in principle to pay to states other than New York with which it enters into formal settlements a total of \$50 million. CGM paid \$3.59 million of this \$50 million to Texas as part of the settlement with that state. CGM expects it will reach settlements with the remaining states.
- On March 25, 2009, MS&Co. entered into a LAWG with FINRA. FINRA found that, from 1998 through 2003, MSDW failed to reasonably supervise the activities of two Financial Advisors in one of its branches. FINRA found that these Financial Advisors solicited brokerage and investment advisory business from retirees and potential retirees of certain large companies by promoting unrealistic investment returns and failing to disclose

material information. FINRA also held that MS&Co. failed to ensure that the securities and accounts recommended for the retirees were properly reviewed for appropriate risk disclosure, suitability and other concerns. MS&Co. consented, without admitting or denying the findings, to a censure, a fine of \$3 million, and restitution of approximately \$2.4 million plus interest to 90 former clients of the Financial Advisors.

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

## **Item 10: 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.

### **A. Broker-Dealer Registration Status**

As well as being a registered investment advisor, MSSB is registered as a broker-dealer.

### **B. Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Adviser Registration Status**

As well as being a registered investment advisor, MSSB has related persons that are commodity pool operators (Ceres Managed Futures LLC, Morgan Stanley AIP GP LP, Morgan Stanley Investment Management Inc., Morgan Stanley Cayman Ltd., Morgan Stanley AIP Cayman GP Ltd., Morgan Stanley Alternative Investment Partners LP, Morgan Stanley Hedge Premier GP, and Morgan Stanley GWM Feeder

Strategies LLC) and commodity trading advisers (Ceres Managed Futures LLC, Morgan Stanley AIP GP LP, Morgan Stanley Investment Management Inc.). For a full listing of affiliated investment advisers please see the ADV Part I.

## **C. Material Relationships or Arrangements with Industry Participants**

**Restrictions on Executing Trades.** As MSSB is affiliated with Morgan Stanley & Co. LLC ("MS&Co."), 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 MS&Co., Morgan Stanley Parent, and their affiliates.
- 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, Morgan Stanley Parent, MS&Co., or their affiliates.

These restrictions may adversely impact client account performance.

**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 accounts.

**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, 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, MSSB (or an affiliate's) trading – both for its proprietary account and for client accounts – may be detrimental to securities held by a client and thus create a conflict of interest. We address this conflict by disclosing it to you.

**Trade Allocations.** Your Private Wealth Advisor may aggregate the securities to be sold or purchased for more than one client to obtain favorable execution to the extent permitted by law. Your Private Wealth Advisor will then allocate the trade in a manner that is equitable and consistent with MSSB's fiduciary duty to its clients (including pro rata allocation, random allocation or rotation allocation). Allocation methods vary depending on various factors (including the type of investment, the number of shares purchased or sold, the size of the accounts, and the amount of available cash or the size of

an existing position in an account). The price to each client is the average price for the aggregate order.

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

**Restrictions on Securities Transactions.** There may be periods during which MSSB or investment managers are not permitted to initiate or recommend certain types of transactions in the securities of issuers for which 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 securities, and in certain related securities. These restrictions may adversely impact your account performance.

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

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

**Research Reports.** MS&Co. does business with companies covered by its research groups. Furthermore, MS&Co. and its affiliates may hold a trading position (long or short) in, and client accounts may hold, 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 (including affiliates of MS&Co.) may own over 5% of the equity interests of certain Trading Systems or their parent companies, including BATS Global Markets, Inc., which owns and operates BATS Exchange, Inc., BATS Trading Limited and Direct Edge (commonly known as "BATS"); BIDS Holdings LP and BIDS Holdings GP LLC (commonly known as "BIDS"); BOX Holdings Group LLC; Eris Exchange Holdings LLC; Equilend; iSWAP Limited; MTS Associated Markets; MuniCenter (TheDebtCenter, LLC); OTC Deriv Limited; Source Holding Ltd; TradeWeb Markets LLC; and Turquoise Global Holdings Ltd.. The Trading Systems on which MSSB trades or 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 Private Wealth Advisor for an up-to-date list of Trading Systems in which MSSB or its affiliates own interests and on which MSSB and/or MS&Co. trades for client accounts. Certain Trading Systems offer cash credits for orders that provide liquidity to their books and charge explicit fees for orders that extract liquidity from their books. From time to time, the amount of credits that MSSB and/or MS&Co. receive from one or more Trading System may exceed the amount that is charged. Under these limited circumstances, such payments would constitute payment for order flow.

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

**Transaction-Related Agreements with MS & Co. and Affiliates.** In connection with creating MSSB, certain agreements were entered into between or involving some or all of MSSB, MS&Co, and their affiliates. Some of these agreements, including the following, remain in effect:

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

MS&Co and its affiliates. MSSB has a conflict of interest in transmitting client orders to these entities.

***MSSB Affiliate in Underwriting Syndicate.*** If an affiliate of MSSB is a member of the underwriting syndicate from which a security is purchased, we or our affiliates may directly or indirectly benefit from such purchase.

***Related Investment Advisors and Other Service Providers.***

MSSB has related persons that are registered investment advisers in various investment advisory programs (including Morgan Stanley Investment Management Inc., Morgan Stanley Investment Advisors Inc. and Morgan Stanley Investment Management Limited). If you invest your assets and use an affiliated firm to manage your account, MSSB and its affiliates earn more money than if you use an unaffiliated firm. Generally, for ERISA or other retirement accounts, MSSB rebates or offsets fees so that MSSB complies with IRS and Department of Labor rules and regulations.

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

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

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

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

***Cash Sweeps***

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

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

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

Uninvested cash and allocations to cash including assets invested in Sweep Investments are included in the Fee calculation hereunder.

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

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

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

***Bank Deposit Program.*** Through the Bank Deposit Program, Deposit Accounts are established for you at one or more of the following banks (individually and collectively, the “Sweep Banks”): (i) Morgan Stanley Bank, N.A. and/or (ii) Morgan Stanley Private Bank, National Association. The Sweep Banks are affiliated with MSSB. The Sweep Banks pay interest on the Deposit Accounts established under the BDP. Your deposits at the Sweep Banks will be insured by the Federal Deposit Insurance Corporation (“FDIC”) up to applicable limits, in accordance with FDIC rules, and subject to aggregation of all the accounts (including, without limitation, certificates of deposit) that you hold at the Sweep Banks in the same capacity. Bank deposits held through the BDP are not covered by SIPC or excess coverage.

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

Terms of the Bank Deposit Program are further described in the Bank Deposit Program Disclosure Statement, which will be provided to you upon your first investment in the Bank Deposit Program. You may also obtain the Bank Deposit Program Disclosure Statement as well as current interest rates applicable to your account, by contacting your Graystone Consultant or through MSSB’s website at



[http://www.morganstanley.com/wealthinvestmentstrategies/pdf/BDP\\_disclosure.pdf](http://www.morganstanley.com/wealthinvestmentstrategies/pdf/BDP_disclosure.pdf) and [www.morganstanley.com/wealth/investmentstrategies/ratemonitor.asp](http://www.morganstanley.com/wealth/investmentstrategies/ratemonitor.asp). You acknowledge and understand that we may amend the list of Sweep Banks at any time with 30 days written notice to you. If you are participating in the Bank Deposit Program, please read the Bank Deposit Program Disclosure Statement carefully.

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

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

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

**Money Market Funds.** We may, in our sole discretion, offer Money Market Funds as Sweep Investments. The Money Market Funds are affiliated with MSSB. You understand that purchases and redemptions of Money Market Fund shares may be 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. Before you invest in any Money Market Fund, read its prospectus carefully. Money Market Fund shares are neither insured nor protected by the FDIC. Investment in any money market fund is a purchase of securities issued by the money market fund, not a bank deposit.

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

In addition, certain of the Money Market Funds have minimum balance requirements. For eligible accounts, if your investment falls below the minimum balance requirement, MSSB may redeem and reinvest all of your shares in the BDP. Once your sweep option has been changed, we will not automatically change it back to your previous Sweep Investment even if you meet the minimum initial investment and/or balance requirements. You must contact your Financial Advisor or Graystone Consultant 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 Graystone Consultant. However, uninvested cash in your account will not be swept into these money market funds.

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

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

**Alternatives to the Bank Deposit Program.** All accounts that are eligible can choose from among certain Sweep Investments as alternatives to the Bank Deposit Program.

Please contact your Financial Advisor for more information about choosing an alternative Sweep Investment. In addition, you may obtain information with respect to the current yields and interest rates on the available Sweep Investments by contacting your Financial Advisor or through MSSB's web site at [www.morganstanley.com/wealth/investmentstrategies/ratemonitor.asp](http://www.morganstanley.com/wealth/investmentstrategies/ratemonitor.asp).



**Miscellaneous.** The rate of return on a default Sweep Investment may be higher or lower than the rate of return available in other Sweep Investments. Neither MSSB nor any affiliate is responsible to you if the default Sweep Investment has a lower rate of return than the other available Sweep Investments or causes any tax consequences resulting from your investment in the default Sweep Investment. We may, in our sole discretion determine and change the Sweep Investments available in your account. We may, at any time, discontinue offering any available Sweep Investment and, upon notice to you, cease offering your Sweep Investment. If we cease offering your Sweep Investment and you do not select a new Sweep Investment, your new Sweep Investment will be the default Sweep Investment as designated by us for such account.

Generally, temporary “sweep” transactions of all uninvested cash balances, allocations to cash and cash equivalents, if any, in the account will commence, to the extent permitted by applicable law, on the next business day, with dividends credited to the client on the second business day. (If cash is deposited after normal business hours, the deposit may be credited on our recordkeeping system, for purposes of the preceding sentence, as having been received on the following business day.) (For certain accounts — namely accounts established as Basic Security Accounts that have less than \$1,000 in the Sweep Investment — amounts awaiting investment will sweep weekly.)

Neither MSSB nor any affiliate will be responsible for any losses resulting from a delay in the investment of cash balances.

You authorize us to invest your funds in your Sweep Investment and to satisfy debits in your account by redeeming shares or withdrawing funds, as applicable, from your Sweep Investment. Upon any such sale, gains on your position may be taxable.

You may change your Sweep Investment to another Sweep Investment, if available for your account, by contacting your Financial Advisor. You agree that upon selection of a new Sweep Investment we may, as applicable, sell your shares in, or withdraw your funds from, your current Sweep Investment and, as applicable, purchase shares or deposit funds in your new Sweep Investment. There may be a delay between the time we sell shares or withdraw funds from your current Sweep Investment and the time we purchase shares or deposit funds in your new Sweep Investment. You may not earn interest or dividends during the time your funds are not invested.

**Conflicts of Interest Regarding Sweep Investments.** If your Sweep Investment is a Money Market Fund, as available, then the account, as well as other shareholders of the Money Market Fund, will bear a proportionate share of the other expenses of the Money Market Fund in which the account’s assets are invested.

If your Sweep Investment is a Money Market Fund, you understand that Morgan Stanley Investment Management Inc. (or another MSSB affiliate) may receive an investment management fee for managing the Money Market Fund and that Morgan Stanley Distributors Inc., or another one of our affiliates, may receive compensation in connection with the

operation and/or sale of shares of the Money Market Fund, which may include a distribution fee pursuant to Rule 12b-1 under the Investment Company Act of 1940, to the extent permitted by applicable law.

You understand that unless you are a retirement plan, the Fee will not be reduced by the amount of the Money Market Fund management fee or any shareholder servicing and/or distribution or other fees we or our affiliates may receive in connection with the assets invested in the Money Market Fund. For additional information about the Money Market Fund and applicable fees, you should refer to each Money Market Fund’s prospectus.

If your Sweep Investment is the Bank Deposit Program, you should be aware that, each Sweep Bank will pay MSSB a fee equal to the percentage of the average daily deposit balances in your Deposit Account at the Sweep Banks. The fee received by MSSB may affect the interest rate paid by the Sweep Banks on your Deposit Accounts. Your Financial Advisor will not receive a portion of the fee. In addition, MSSB will not receive the fee in connection with the Program for assets in the Deposit Accounts for retirement pccounts. Affiliates of MSSB, however, may receive a financial benefit in the form of credit allocations made for financial reporting purposes. The amount of this benefit will vary and will be based on the average daily deposit balances in the Deposit Accounts at each Sweep Bank. Generally, these benefits will increase as more funds are deposited through the Bank Deposit Program. No separate charges, fees or commissions will be imposed on your account as a result of or otherwise in connection with the Bank Deposit Program.

In addition, MSSB, the Sweep Banks and their affiliates receive other financial benefits in connection with the Bank Deposit Program. Through the Bank Deposit Program, each Sweep Bank will receive a stable, cost-effective source of funding. Each Sweep Bank intends to use deposits in the Deposit Accounts at the Sweep Bank to fund current and new businesses, including lending activities and investments. The profitability on such loans and investments is generally measured by the difference, or “spread,” between the interest rate paid on the Deposit Accounts at the Sweep Banks and other costs of maintaining the Deposit Accounts, and the interest rate and other income earned by the Sweep Banks on those loans and investments made with the funds in the Deposit Accounts. The income that a Sweep Bank will have the opportunity to earn through its lending and investing activities is expected to be greater than the fees earned by us and our affiliates from managing and distributing the money market funds available to you as a sweep investment.

## **D. Material Conflicts of Interest Relating to Other Investment Advisers**

MSSB and its affiliates provide investment advisory, prime brokerage, trading, execution and other services to each other, to managers, pooled investment vehicles, and other clients, and receive compensation for such services.

MSSB may choose to recommend managers or investment products for which MSSB or one or more of its affiliates serve

as broker, prime broker, counterparty, administrator or other service provider, including investment banking, placement agent or secured lender and with respect to which MSSB and/or its affiliates receives fees, interest and/or other compensation. MSSB, in the course of these activities, including its prime broker and secured or margin lending activities, may take actions that are adverse to the interest of its advisory client, such as foreclosing upon collateral comprised of assets of an investment product pledged with respect to a loan.

***Payments from Investment Managers.*** Investment managers participating in MSSB-sponsored internal training and education conferences and meetings may make certain payments to, or for the benefit of, MSSB or its Private Wealth Advisors to offset expenses incurred for these events.

While all fund families are provided with sponsorship opportunities, certain fund families (referred to as “Global Partners”) dedicate significant financial and staffing resources to these activities and may receive additional opportunities to sponsor firm events and to promote their own funds to Private Wealth Advisors and clients instead of funds from those fund families that do not commit similar resources to educational, marketing and other promotional events. MSSB selects the fund families that are Global Partners based on a number of quantitative and qualitative criteria.

Investment managers may also sponsor their own educational conferences and pay expenses of Private Wealth Advisors attending these events; MSSB’s policies require that the training or education portion of these events comprises substantially the entire event. Investment managers may sponsor educational meetings or seminars in which clients as well as Private Wealth Advisors are invited to participate.

Investment managers are allowed to occasionally give nominal gifts to PWAs and to occasionally entertain PWAs subject to a limit of \$1,000 per employee per year. MSSB’s non-cash compensation policies set conditions for each of these types of payments, and they do not permit any gifts or entertainment conditioned on the achievement of a sales target.

None of these amounts relate to any particular transaction or investment made by MSSB clients with investment managers. Investment managers participating in the programs described in this Brochure are not required to make any of these types of payments.

***Payments from Mutual Funds.*** Please see the discussion under “Funds in Advisory programs” in Item 5 B.

***Client selection of MSSB affiliated funds.*** Where clients select to invest in mutual funds where the investment adviser is a MSSB affiliate, in addition to the program fee paid by clients, MSSB and its affiliates may also receive investment management fees and related administrative fees. Since the affiliated sponsor or manager receives additional investment management fees and other fees, MSSB has a conflict to recommend MSSB affiliated Funds.

For more information, please refer to the document “Mutual Fund Share Classes and Compensation”, at [http://www2.morganstanley.com/wealth/investmentsolutions/pdfs/MF\\_share\\_classes.pdf](http://www2.morganstanley.com/wealth/investmentsolutions/pdfs/MF_share_classes.pdf) and also available from your Private Wealth Advisor on request.

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

If available, we (without notice to you) will convert any mutual fund in your account to a share class of the same Mutual Fund which is a load-waived or no-load share class such as an Institutional (“I”) share or advisory program share. On termination of your account, or the transfer of mutual fund shares out of your advisory account into a MSSB brokerage account, we will convert any I shares and/or advisory shares to the corresponding non-advisory share class. The non-advisory mutual fund share class generally has higher operating expenses than the corresponding I and advisory share classes, which may negatively impact investment performance.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **A. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

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

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

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

Please ask your Private Wealth Advisor if you would like more information on the Private Wealth Advisor's practices in this respect.

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

## **B. Securities in Which You or a Related Person Has a Material Financial Interest**

MSSB may from time to time buy securities from, or sell securities to, certain of MSSB's advisory clients on a principal basis to the extent such transactions are consistent with MSSB's obligations to its clients and in compliance with applicable disclosure, consent and other regulatory requirements. Generally, principal transactions with clients will be effected only where the execution of the transaction will be at least as favorable as an agency transaction with a

non-affiliated broker-dealer and where the client has consented to such execution. For example, MSSB from time to time engages in principal trades with clients, subject to receipt of all required consents, in order to achieve best execution. In addition to securities transactions described above, the MSSB also effects transactions in foreign currencies on a principal basis for client accounts in accordance with applicable law.

MSSB is the regular investment banker for a number of major corporations and, from time to time, performs investment banking services for other companies as well. It is MSSB's belief that the nature and range of clients to which MSSB renders such investment banking services is such that it would be inadvisable to exclude categorically all of these companies from a client's account. Accordingly, it is likely that securities in an advisory account will include some of the securities of corporations for which MSSB performs investment banking services. Moreover, an account may include the securities of companies in which MSSB or affiliates makes a market or in which MSSB or affiliates, or the officers or employees of MSSB or affiliates, own securities.

In addition, MSSB may from time to time recommend to, purchase for, or sell to clients' securities or other investment products in which MSSB or its affiliates may have or may acquire an interest. Transactions in a specific security may not be accomplished for all client accounts at the same time or price.

## **C. Investing in Securities That You or a Related Person Recommends to Clients or Has a Financial Interest In**

In addition, MSSB may recommend to clients the services of registered investment advisers affiliated with MSSB. Such investment advisers, if selected by the client, receive investment management fees for their services. PWM also refers clients to its affiliates for management through pooled vehicles using alternative investment as well as private equity and venture capital strategies. MSSB recommends to, purchases for, or sells to its clients' securities or other investment products in which MSSB or its affiliates may have or may acquire an interest, and acts as a general or limited partner in other partnerships in which clients may be solicited to invest. The documents that clients are required to execute to receive the investment supervisory services offered by MSSB contain, where appropriate, conflict of interest disclosure.

## **D. Conflicts of Interest Created by Contemporaneous Trading**

Please refer to Section 11(A) above for information about contemporaneous trading.

# **Item 12: Brokerage Practices**

## **A. Brokerage Practices**

Whenever permitted by applicable law, MSSB or any of its affiliates will act as broker-dealer for client transactions.

Clients may be able to obtain better executions of securities transactions if a broker-dealer other than MSSB or its affiliates are used to execute the client transactions.

It is MSSB's intended policy, consistent with investment considerations, to seek the most favorable price and execution ("best execution") for brokerage orders. Best execution is a combination of commission rates and prompt, reliable execution. In seeking best execution, MSSB may place most or all brokerage transactions through Affiliated Broker-Dealers. In continuing to place most or all of its transactions through affiliated broker-dealers, MSSB considers execution capabilities, including block positioning, financial stability, ability to maintain confidentiality, delivery and ability to obtain best execution. Consistent with the policy of seeking best execution, MSSB may consider the research capabilities of various brokerage firms, including their coverage of industries not covered by MSSB, the reputation and standing of their analysts, and their investment strategies, timing, accuracy of statistical information and idea generation. These supplemental research and statistical services generally consist of research reports or oral advice from the brokers and dealers regarding particular companies, industries or general economic conditions.

MSSB may not be able to execute transactions in certain fixed income securities (specifically including municipal bonds) in a client's account when they do not meet the minimum denomination and increment requirements established by the issuer. In certain cases, this may result in an inability to rebalance a portion of a client's fixed income portfolio or liquidate a portfolio of fixed income securities for tax harvesting or other purposes. To the extent permitted by law, MSSB will use its best efforts to assist advisory clients in selling fixed income securities that may not meet these minimums but cannot guarantee that a market will be available in which to sell such securities, nor the price at which such securities would sell if such markets were to exist.

## **B. Order Aggregation**

MSSB manages its client accounts independently, taking into consideration each client's investment objectives and guidelines. Transactions for each client account may be completed independently. MSSB may, however, purchase or sell the same securities or instruments for a number of client accounts at the same time. When possible, clients' orders for the same security may be combined or "batched" to facilitate best execution. To the extent MSSB effects batched transactions for client accounts, it will do so in a manner designed to ensure that no participating client is favored over any other client. Specifically, each client that participates in a batched transaction will participate at the average share price for all of the transactions in that batched order. Securities purchased or sold in a batched transaction will be allocated pro-rata, when possible, to the participating clients' accounts in proportion to the size of the order placed for each account. MSSB may, however, increase or decrease the amount allocated to each account if necessary to avoid holding odd-lot or small numbers of shares for particular clients. Additionally, if MSSB is unable to fully execute a batched transaction and MSSB determines that it would be impractical to allocate a

small number of securities among the accounts participating in the transaction on a pro-rata basis, MSSB may allocate such securities in a manner determined in good faith to be a fair allocation.

Due to the diverse nature of MSSB's client base (i.e., taxable, tax-exempt, and clients that hold restricted stock and/or inherited stock), MSSB may decide to exclude an account(s) from a batched order if the inclusion of the account(s) would be detrimental to the client(s) (i.e., adverse tax consequences, etc). MSSB may also determine that it is not feasible to combine or batch transactions into a single order, and may effect transactions on an account by account basis. This will generally occur when MSSB is purchasing and selling securities in response to client cash flows. Since cash flow transactions are generally not predictable, MSSB may purchase or sell the same security several times during the course of the day, which may result in MSSB's clients not receiving the same or an average share price for trades placed in the same security on the same business day.

## **Item 13: Review of Accounts**

### **A. Frequency and Nature of Review of Client Accounts**

The WMS Group will perform quarterly surveillance on all relationships where there is a WMS Agreement and an AAF in place for the client's advisory assets. This review involves a comparison of the Client's current portfolio allocation relative to the construct outlined in the AAF. Breaches, if any, are communicated to the Client for direction.

### **B. Content and Frequency of Account Reports to Clients**

Performance reports detailing investment performance at the investment and aggregate portfolio level, as well as the strategic and tactical investment tolerances from the AAF are made available to you on a quarterly basis.

## **Item 14: Client Referrals and Other Compensation**

MSSB or affiliates may enter into agreements with affiliates as well as third parties that solicit clients for the MSSB's advisory programs. Under such agreements, the affiliates and third parties may refer or solicit clients and receive compensation for such services. The compensation paid to any such third-party will typically consist of a cash payment stated as a percentage of MSSB's advisory fees, but may include cash payments determined in other ways. As a result of these arrangements, fees paid by MSSB's advisory clients may differ from those paid by other similarly situated clients.

## Item 15: Custody

When MSSB acts as your custodian it provides you with written confirmation of securities transactions, and account statements at least quarterly. You may elect to receive trade confirmations after the completion of each trade electronically through PWM's online account services site. To enroll your account in the online account service site, please contact your Private Wealth Advisor. You may also receive Fund prospectuses, where appropriate.

We provide written performance reports to you upon request. These reviews have tabular reports and graphical displays showing 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 PWM's online account services site. To enroll your account in the online account service site, please contact your Private Wealth Advisor.

## Item 16: Investment Discretion

In one or more of the Investment Options, MSSB may retain discretionary authority to manage a client's assets in accordance with their AAF. This authority is subject to the client's investment goals and guidelines and financial situation as determined by prior agreement and continuous review. In addition, MSSB's other financial industry activities may result in temporary limitations on MSSB's ability, from a legal and regulatory point of view, to effect transactions on a discretionary basis.

## Item 17: Voting Client Securities

**Electing Who Votes Proxies.** If you have an account in the PM or GIS program, or you invest in pooled vehicles through the WMS NDA program, you may elect to:

- retain the authority and responsibility to vote proxies for your account
- delegate discretion to vote proxies to a third party (other than MSSB) or
- authorize us to vote proxies for such securities and receive related materials.

Unless you authorize us 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.

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

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

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

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

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

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

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

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

You may obtain from your Private Wealth Advisor, on request:

- a complete copy of MSSB's proxy voting policies and procedures (including a copy of ISS' policy guidelines and vote recommendations in effect from time to time) or
- information on how proxy votes have been cast on your behalf during the prior annual period.

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

## **Item 18: Financial Information**

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

MSSB does not have any financial conditions that are reasonably likely to impair its ability to meet its contractual commitments to clients.

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

## **Item 19: Requirements for State-Registered Adviser**

This item is not applicable to the programs described in this Brochure.