

Strategic Equity Portfolios (STEP)

STEP Program Insights

October 2012

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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Agenda

- STEP Overview
- U.S. Model Portfolio
- 2012 Positioning and Themes
- STEP Factsheets

Strategic Equity Portfolios (STEPs)

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Morgan Stanley & Co. Equity Research Department's "Best Ideas in Action"

Objective of all Ten Proprietary Model Portfolios

Identify **attractively valued securities with strong long-term fundamentals** that fit with the generally **conservative risk parameters** that are used to construct the STEP portfolios

Guiding Principles

- Long-term track record of outperforming benchmarks with below-average volatility
- Take an "investing" approach instead of a "trading" approach - Maintain moderate turnover
- Minimize stock-specific blowups that can weigh heavily upon performance in concentrated portfolios
- Defense Win Championships – generate outperformance in sharply down years for the market, in exchange for potential modest underperformance in sharply up years
- Consistent approach, client flexibility, accessible content, and transparency

STEP Portfolio Mandates

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6 Individual Equity-Oriented Portfolios

U.S. Model Portfolio

Core diversified U.S. equity portfolio; combines growth and value style investing; informed by MS & Co. strategy view

Glocal

U.S.-based companies with leading operating positions throughout the world; "Global Gorillas"

Core Global

Large cap-oriented global portfolio that incorporates US stocks and liquid blue sky-cleared ADRs

Dividend

Focus on high-quality companies with attractive dividend yields and strong dividend growth potential

Growth

Emphasis on companies with above-average projected EPS, cash flow, and revenue growth rates

Value

Emphasis on companies that are selling below intrinsic value with mid- and large-cap exposure

3 ETF / CEF-Oriented Portfolios

Taxable Fixed Income

Identifies funds typically trading at wider-than-average discounts in the MSSB taxable CEF universe

Municipal Fixed Income

Focus on municipal CEFs that are relatively liquid, and typically attractively valued within the MSSB coverage universe

International Equity

Emphasizes non-US markets favored by MS's global equity research team, particularly regional strategists and economists

1 Asset Allocation Portfolio

Asset Allocation

Follows the MSSB GIC moderate risk asset allocation (L-1/M-5); utilizes the MSSB ETF research team for recommendations on investment vehicles

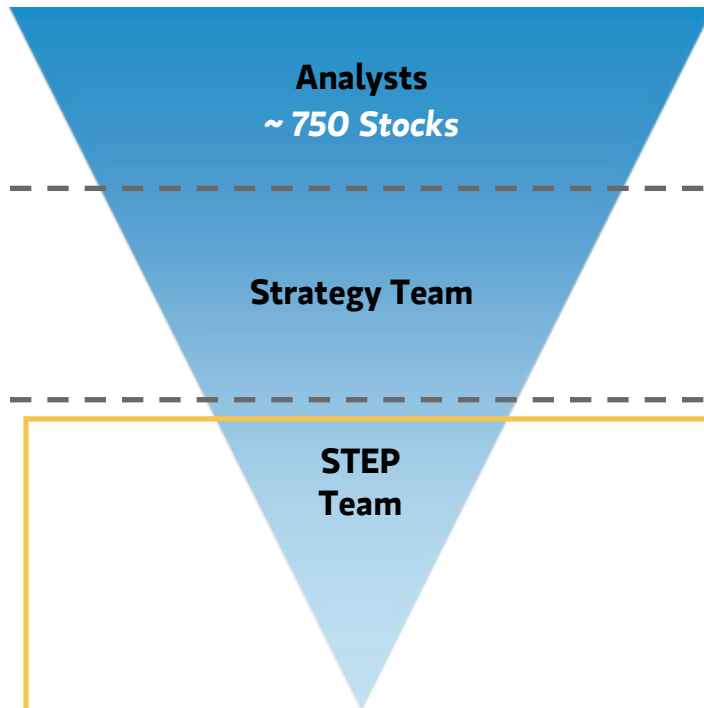
The Model Portfolio Process

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The STEP “Triple Screen”

MS U.S. Research Coverage Universe



STEP Value Added

- Close interaction with MS & Co. industry analysts
- High correlation with analysts' top picks, but ample differentiation
- Directional consistency with strategy, macro themes and sector preferences, particularly in the US Model Portfolio
- Use of quantitative screens and ModelWare tool
- Supplements MS Research with empirical research
 - Proprietary Screens
 - Earnings Calls
 - Industry Conferences
 - Management Meetings
- Real-World analysis (with Morgan Stanley perspective)
- Final decision-making responsibility
- Strong long-term track record

Performance Methodology

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Conservative, Transparent and Consistent Methodology

STEP Performance is calculated in accordance with **CFA Institute⁽¹⁾ Global Investment Performance Standards (GIPS)**. We seek to mirror, to the extent possible, the performance that individual investors are likely to experience

Portfolio Change Methodology

- Changes announced prior to the market open
- Performance based on the subsequent closing price of the security on the day that the change is announced

Dividend Treatment

- All STEP and benchmark performance is based on total return (includes dividends)
- Calculation assumes that dividends paid on securities are incorporated into each individual security on the ex-dividend date

Rebalancing Methodology

- When any change is made to the STEP portfolio, there is an automatic rebalancing of all the other equity positions back to recommended weights
- Removes equity “drift” that might have happened between the last change in the portfolio and the current one

Cash Position

- STEPs will often maintain moderate cash positions (currently 0-6%)
- Cash returns incorporate an assumed investment in 90-day U.S. Treasury Bill

(1) Formerly the Association for Investment Management and Research, or AIMR

Provide High Degree of Transparency and Research Content

Publication	What Is It?	Frequency
STEP Program Insights	Provides a comprehensive overview of the STEP program	Annually (March)
STEP Reviews	Provide a detailed assessment of each portfolio's performance and positioning	Quarterly (US Model)
STEP Change Notes	Thorough analysis of portfolio deletions and additions with investment detailed rationale	Market Driven
STEP Monthly Digest	A summary of up-to-date performance and recent change recommendations	Monthly
Special Reports	Thematic reports (e.g., Secular Growth, Return of Capital)	Ad Hoc
Behind The Spreadsheet	Behind-the-scenes in-depth interview of MS analysts and strategists	Ad Hoc
Historical Performance & Statistics	Detailed performance attribution and risk assessment report	Semi-Annually
150 Point Letter	Popular letter for FAs to distribute to clients when the DJIA gains or loses more than 150 points	Market Driven

STEP Implementation & Resources

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Implementation Options

- Transaction-focused brokerage accounts
- MSTS “One Click” transactional system
- CGA and PM Accounts
- MS PWM in discretionary advisory accounts

Contacts

- For specific PM account-related questions contact Doran Chlupsa (914) 225-7329
- For transaction-oriented and MSTS questions, please call the MSSB Capital Markets Desk (914) 225-7000

Additional Resources

1) Center for Investment Excellence

- Set up automatic alerts in CIE for STEP Publications – Search for “Hernando Cortina”
<http://mssbcie.ms.com/ri/#lookup=37;page=author;pageIndex=1>

2) Email Distribution List

- Add yourself to the following group list:
step_fa_subscriptions
- Or contact us to do it for you

3) 3D Resources (3DR) STEP page

- Type “3DR” in your browser, STEP is located under Investment Strategy and Model Portfolio tab, or simply type “STEP”

Since Inception Annualized Performance

Through 9/30/2012

	Absolute	Relative	Average Annualized Turnover	Targeted Turnover
Glocal (2/22/95)	11.0%	2.6%	32%	40-60%
S&P 500 Index	8.4%			
US Model Portfolio (12/31/95)	8.9%	1.8%	47	40-60
S&P 500 Index	7.1%			
Dividend (7/11/05)	6.2%	1.7%	41	30-50
S&P 500 Index	4.5%			
Core Global (2/26/04)	6.6%	1.1%	35	40-60
MSCI ACWI Index	5.6%			
Value (2/26/02)	6.7%	2.1%	37	40-60
S&P Value Index	4.5%			
Growth (2/26/02)	3.9%	-0.5%	44	40-60
S&P Growth Index	4.4%			
Taxable Income (7/24/00)	8.8%		50	40-80
Municipal Income (11/23/99)	8.7%		24	40-80
International (2/23/98)	5.9%	0.9%	26	30-60
MSCI ACWI - Ex US Index	5.0%			
Asset Allocation (11/19/08)	14.0%	0.3%	43	20-40
60% MSCI ACWI / 40% Aggregate Bd	13.7%			

Source: Morgan Stanley Smith Barney, Bloomberg

Since Inception Cumulative Performance

Through 9/30/2012

	Absolute	Relative	Average Annualized Turnover	Targeted Turnover
Glocal (2/22/95)	530.6%	217.2%	32%	40-60%
S&P 500 Index	313.4%			
US Model Portfolio (12/31/95)	319.1%	102.1%	47	40-60
S&P 500 Index	217.1%			
Dividend (7/11/05)	54.2%	16.7%	41	30-50
S&P 500 Index	37.5%			
Core Global (2/26/04)	73.8%	14.4%	35	40-60
MSCI ACWI Index	59.4%			
Value (2/26/02)	98.4%	38.4%	37	40-60
S&P Value Index	60.0%			
Growth (2/26/02)	50.2%	-8.2%	44	40-60
S&P Growth Index	58.4%			
Taxable Income (7/24/00)	179.1%	31.9%	50	40-80
Morningstar Taxable CEF Index	147.2%			
Municipal Income (11/23/99)	192.7%	12.0%	24	40-80
Morningstar Muni CEF Index	180.7%			
International (2/23/98)	130.2%	26.7%	26	30-60
MSCI ACWI - Ex US Index	103.5%			
Asset Allocation (11/19/08)	66.1%	1.9%	43	20-40
60% MSCI ACWI / 40% Aggregate Bd	64.2%			

Source: Morgan Stanley Smith Barney, Bloomberg

Year-to-Date Performance

Through 9/30/2012

	YTD Absolute	YTD Relative	LTM Turnover	Targeted Turnover
Glocal	10.4%	-6.0%	35%	40-60%
US Model Portfolio	16.7%	0.3%	32	40-60
Dividend	14.1%	-2.3%	43	30-50
S&P 500 Index	16.4%			
Core Global	14.3%	0.9%	23	40-60
MSCI ACWI Index	13.4%			
Value	14.2%	-1.6%	48	40-60
S&P Value Index	15.8%			
Growth	19.4%	2.4%	31	40-60
S&P Growth Index	17.0%			
Taxable Income	20.3%		20	40-80
Municipal Income	14.4%		33	40-80
International	9.6%	-1.2%	30	30-60
MSCI ACWI - Ex US Index	10.8%			
Asset Allocation	10.3%	0.6%	26	20-40
60% MSCI ACWI / 40% Aggregate Bd	9.7%			

Source: Morgan Stanley Smith Barney, Bloomberg

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US Model Portfolio

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Overview

- Morgan Stanley & Co.'s best Equity Research ideas in a portfolio context
- Diversified across sectors and styles
- The 25-year Byron Wien legacy
- "Core Holdings" and "Big Ideas"

Investment Objectives

- Outperform the S&P 500 Index in sideways to down markets
- Maintain market-average or above-dividend yield
- Avoid blowups given concentration of the portfolio
- Remain directionally consistent with US Strategy's key investment themes and sector preferences

Key Characteristics

- 40-45 stocks
- 40-60% annual turnover
- Beta generally < 1.0
- Flexibility: the client can adjust or avoid specific holdings for tax or other purposes
- In-depth portfolio review reports and change rationale notes aid communication with clients

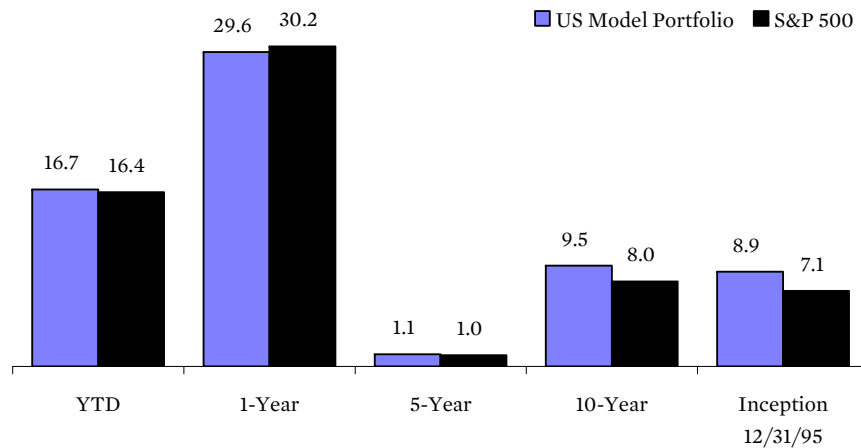
US Model Portfolio: Performance & Statistics

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US Model Portfolio Annualized Returns

For periods ending 9/30/12



Source: Morgan Stanley Smith Barney, Bloomberg. YTD data not annualized.

Results shown represent total return (includes dividends) and exclude brokerage commissions. **Had the results reflected brokerage commissions, the Performance would have been lower.** Past performance is no guarantee of future results. These figures are audited by Zacks Investment Research but are not intended to demonstrate actual returns from any individual portfolio. For details on the STEP commission structure, please see the Disclosure Section of this report.

Results for the US Model Portfolio are presented from December 31, 1995. The portfolio became available as a STEP on February 26, 2002.

US Model Portfolio Return Attribution

for 12/31/2011 to 9/30/2012

	Sector Interaction Effect	Sector Allocation Effect	Stock Selection Effect	Total Variance
Consumer Discretionary	0.1	-0.2	-0.6	-0.7
Consumer Staples	0.0	-0.1	0.0	-0.1
Energy	0.0	-0.1	0.3	0.3
Financials	0.0	0.0	-0.5	-0.5
Health Care	-0.2	0.1	-0.1	-0.1
Industrials	0.0	0.0	-0.3	-0.3
Information Technology	-0.3	-0.4	2.1	1.5
Materials	0.1	0.1	-0.2	0.0
Telecommunication Services	0.1	0.3	0.1	0.5
Utilities	0.1	-0.1	0.2	0.2
[Cash]	0.0	-0.5	0.0	-0.5
Total	-0.04	-0.72	1.01	0.28

Source: Morgan Stanley Smith Barney, Bloomberg

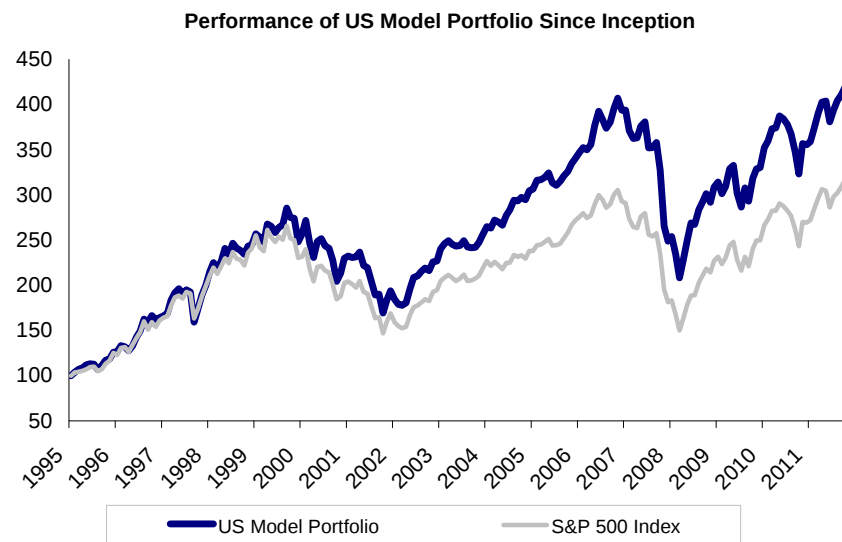
US Model Portfolio: Performance & Contributors

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Inception-to-Date Performance

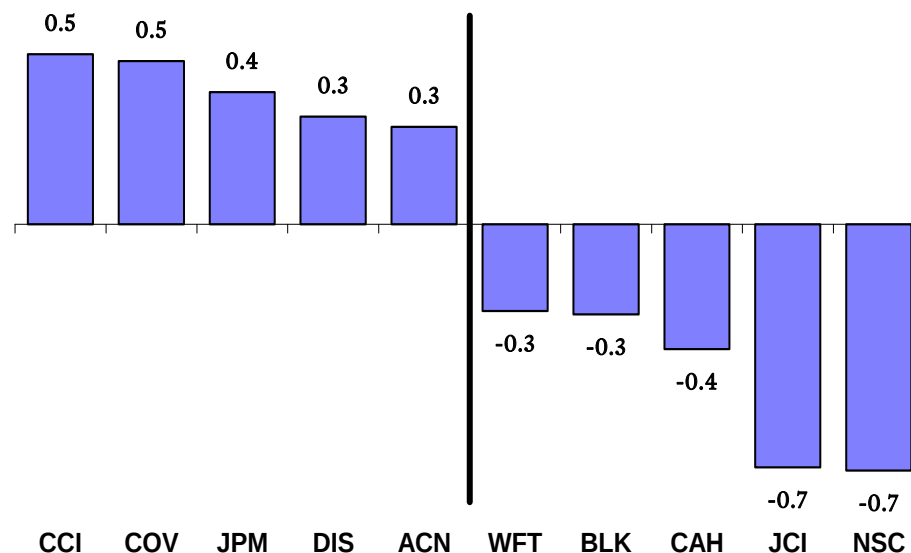
Portfolio versus S&P 500 through 9/30/2012



Source: Morgan Stanley Smith Barney, Bloomberg

Top 5 and Bottom 5 Contributors / Detractors

For the US Model Portfolio in the YTD period ending 9/30/12



Source: Morgan Stanley Smith Barney, Bloomberg

US Model Portfolio: Performance & Statistics

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Key Risks

- Poor sector selection could result in underperformance of the overall portfolio versus the benchmark during any given period
- Won't completely abandon key sectors even if they are underweight (e.g., Consumer Discretionary)
- "Big Ideas" tend to increase the risk profile of the portfolio

Inception-to-date Performance

through 12/31/2011

Annual			
Total	US Model	S&P 500	Outperformance/ (Underperformance)
<u>Returns</u>	<u>Portfolio</u>	<u>Index</u>	<u>Basis points</u>
1996	26.8%	22.9%	382
1997	31.2%	33.4%	(220)
1998	29.4%	28.6%	82
1999	19.6%	21.0%	(146)
2000	-0.1%	-9.2%	905
2001	-9.5%	-11.8%	233
2002	-20.6%	-22.1%	149
2003	30.3%	28.7%	163
2004	10.3%	10.9%	(61)
2005	15.6%	4.9%	1,064
2006	13.3%	15.8%	(252)
2007	13.5%	5.5%	802
2008	-35.5%	-37.0%	149
2009	23.8%	26.5%	(268)
2010	12.1%	15.1%	(295)
2011	1.9%	2.1%	(24)

Cumulative	259.2%	172.3%
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Source: Morgan Stanley Smith Barney, Bloomberg

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Key Global Debates

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United States

Tug-of-war between liquidity (open-ended QE3) and earnings (flat in 2013?)

Looming 2013 “fiscal cliff” and even more fiscal challenges thereafter

Economy in a 1-2% GDP growth trend, notable capex slowdown, housing modest bright spot

Corporate balance sheets in good shape but margin pressures likely to increase

Forward consensus S&P 500 P/E at 13x is slightly below median (13.7x), but 2013 EPS estimates look too high

Europe

Austerity isn't working...Fiscal integration needed, but politics are daunting

EU looks stuck in a CRIC cycle (Crisis, Response, Improvement, Complacency)

Despite pledge to buy Sovereigns, ECB can't solve crisis on its own, North/South need to bridge gap

Emerging Markets

China slowdown: MS sees a “bumpy ride”, but no hard landing

How to best participate in the growth of the EM middle class?

Geopolitics

Middle-east tensions: Iran, Syria, Libya, Egypt

US election and policy uncertainty

STEP Positioning Themes for 2012-13

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Significantly Improved Environment for Stock Pickers in Q3 as European “Tail Risk” Diminished

Average S&P stock correlations decline to lowest level in 2 years, but 2013 uncertainty lingers

Despite solid YTD equity gains, investor “animal spirits” still lacking as YTD equity mutual funds experience \$77 bn in outflows while fixed income funds gain \$230 bn; Equity trading volumes are weak.

Maintain Defensive Stance and Favor “Toll Collector” Stocks with Company-Specific Drivers

Less cyclical, recurring revenue business models with visibility, pricing power, and free cash flow

Return-of-Capital Theme: Dividend growth AND stock buybacks

Favored industries include: pipelines, credit card networks, wireless towers, P&C insurance brokers

Dividends have provided >40% of S&P 500 total returns since 1930

Focus on 2013 Earnings “Achievability”

Pricing power matters: Limited cost savings still available, global competition, disinflation in many industries

Favored ideas include: **Energy**: Williams (WMB), Kinder Morgan (KMI), **Credit Cards**: Visa (V), MasterCard (MA), **Tobacco** – Philip Morris International (PM)

And **assorted others**: Marsh & McLennan (MMC), Crown Castle International (CCI), Sempra Energy (SRE)

Global Gorillas and Spider Monkeys

Apple (AAPL), EMC (EMC), United Technologies (UTX), BlackRock (BLK), Exxon Mobil (XOM), Colgate (CL)

Allergan (AGN), Mead Johnson Nutrition (MJN), International Flavors & Fragrances (IFF), Thermo Fisher (TMO); Starbucks (SBUX)

S&P 500 Quintile Analysis

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The Great 2009-10“Low-Quality” Rally Has Ended

2009 - 2010

Mcap/Beta/Rating	Total Rtn (%)
Quintile 5 -Large Cap	37.4
Quintile 4	55.4
Quintile 3	78.5
Quintile 2	86.5
Quintile 1	113.6
Quintile 5 -High Beta	75.8
Quintile 4	61.4
Quintile 3	52.6
Quintile 2	38.9
Quintile 1	28.1
Total	47.6

2011

Mcap/Beta/Rating	Total Rtn (%)
Quintile 5 -Large Cap	3.1
Quintile 4	0.5
Quintile 3	1.7
Quintile 2	-2.0
Quintile 1	-0.0
Quintile 5 -High Beta	-23.6
Quintile 4	-9.8
Quintile 3	8.3
Quintile 2	9.9
Quintile 1	15.4
Total	2.1

9/30/2012

Mcap/Beta/Rating	Total Rtn (%)
Quintile 5 -Large Cap	18.3
Quintile 4	11.0
Quintile 3	16.0
Quintile 2	13.0
Quintile 1	10.2
Quintile 5 -High Beta	8.9
Quintile 4	18.6
Quintile 3	21.3
Quintile 2	15.4
Quintile 1	14.2
Total	16.4

Source: Morgan Stanley Smith Barney Research, Bloomberg. Quintiles based on S&P 500 Index returns from beginning of each year. Ratings based on S&P Senior Credit Ratings.

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Dividend STEP

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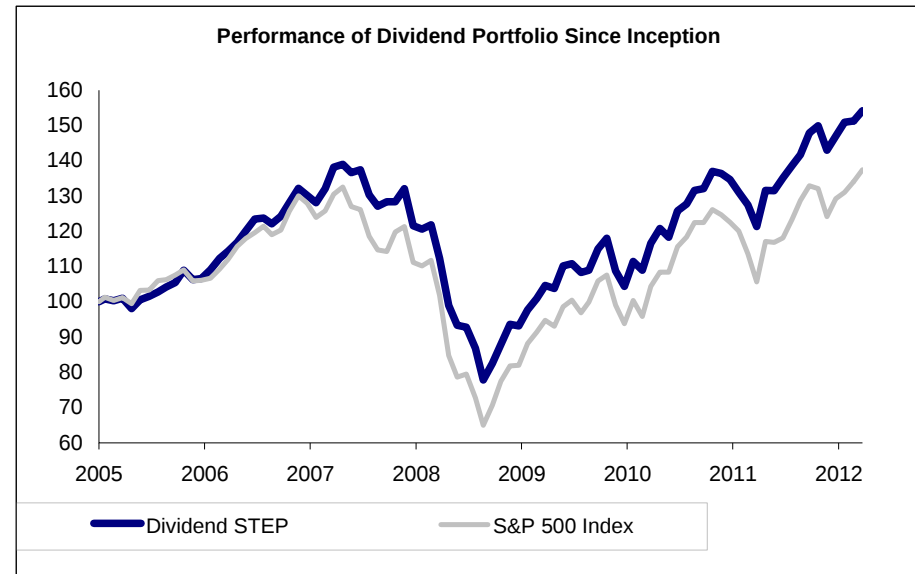
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Key Highlights

- Each selection is:
 - Overweight or Equal-weight
 - Above the S&P average yield or the sector average yield and
 - Investment grade, among other considerations
- Employ quantitative screening using ModelWare (ROE, dividend growth, etc.).
- Current 3% dividend yield – yield expected to stay at least 40-60% above the S&P average; bias toward dividend growth
- Low Beta & Low Turnover (relative to other equity STEPs)
- Since inception (7/11/05): up 54% through 9/30/12 vs. up 38% for S&P 500 benchmark

Performance of Dividend Portfolio

Since Inception 7/11/2005 to 9/30/2012



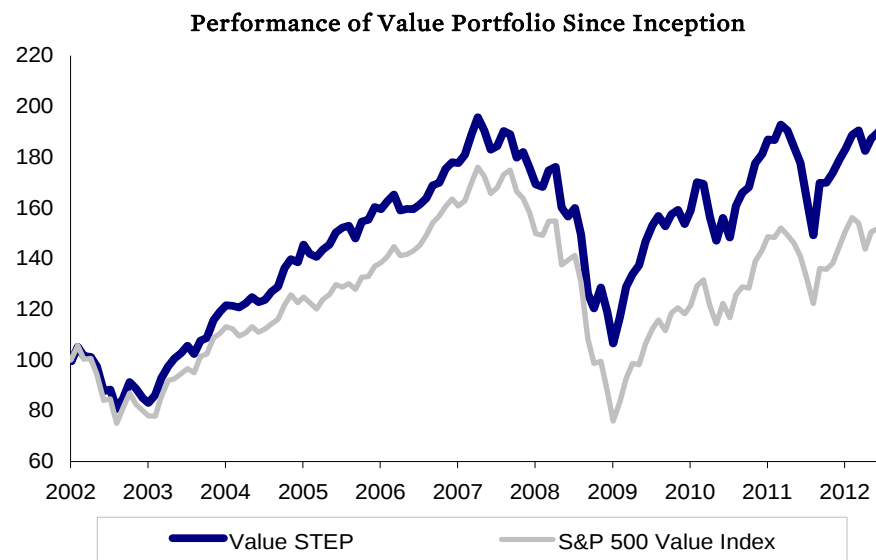
Source: Morgan Stanley Smith Barney, Bloomberg

Key Highlights

- STEP for Conservative-Oriented Value Equity Investors
 - Stocks are typically less volatile than its S&P Value benchmark...
 - ...although concentration risk is relatively high (20 stocks)
- Focus on Dividends and Book Value
 - 2.6% current yield
 - 1.7x average price to book
- 3 Key Categories
 - Industry leaders
 - Telecom and Utilities
 - “Fallen Angels”
- Since inception (2/26/02): up 98% through 9/30/12 vs. up 60% for S&P Value benchmark.

Performance of Value Portfolio

Since Inception 2/26/2002 to 9/30/2012



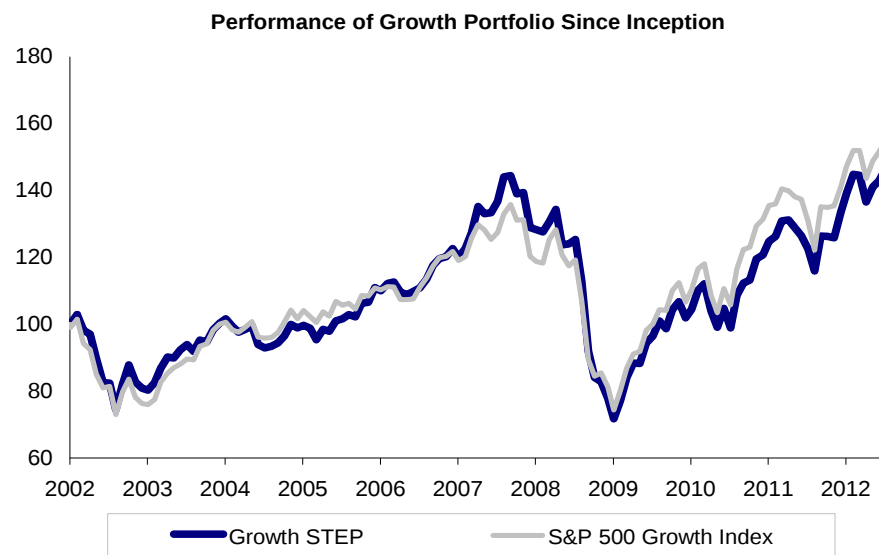
Source: Morgan Stanley Smith Barney, Bloomberg

Key Highlights

- Historical Bias Toward Large-Cap, “Stable-Growth” Companies
 - International Business Machines (IBM), Baxter (BAX), Colgate (CL), Apple (AAPL)
- More “Emerging Growth” Companies Over Time
 - e.g., Crown Castle (CCI), Dollar General (DG), Agilent (A), Essex (ESS)
- Focus on Companies that are Leaders in their Businesses
- Since inception (2/26/02): up 50% through 9/30/12 vs. up 58% for the S&P Growth benchmark.

Performance of Growth Portfolio

Since Inception 2/26/2002 to 9/30/2012



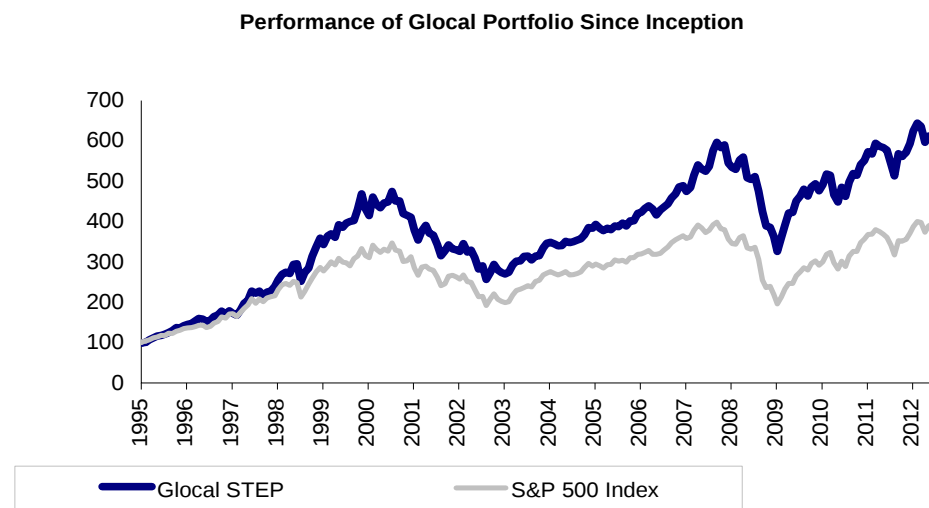
Source: Morgan Stanley Smith Barney, Bloomberg

Key Highlights

- “Think Globally, Invest Locally”, or “Global Gorillas”
- Typically 50% or more of earnings from overseas.
- The “US Multinationals Debate”
 - Is a weak dollar a blessing or a curse?
- Since inception (2/22/95): up 530% through 9/30/12 vs. up 313% for S&P 500 benchmark

Performance of Glocal Portfolio

Since Inception 2/22/1995 to 9/30/2012



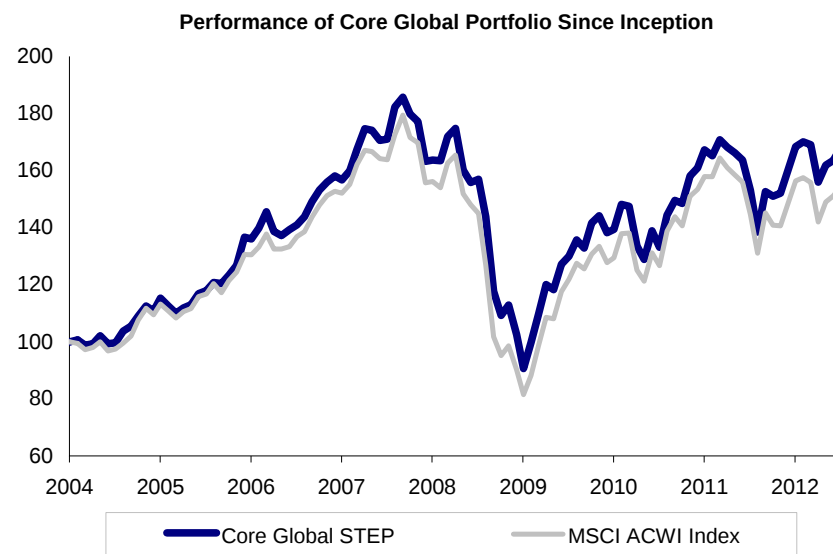
Source: Morgan Stanley Smith Barney, Bloomberg

Key Highlights

- Direct global exposure
 - roughly 50% non-US equity, all overseas stocks are Blue Sky-cleared ADRs
- Sector and geographic weightings will incorporate the views of MS & Co.'s strategists, economists and analysts throughout the world.
- The ability to use small and mid-cap stocks, early-stage growth companies and value-oriented turnaround stories.
- Core Global may utilize ETFs and closed end funds to obtain a presence in certain geographies or sectors.
- Since inception (2/27/04): up 74% through 9/30/12 vs. up 60% for the MSCI ACWI benchmark

Performance of Core Global Portfolio

Since Inception 2/27/2004 to 9/30/2012



Source: Morgan Stanley Smith Barney, Bloomberg

Four ETF / Closed-End Fund STEPs

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Taxable Income

- Above-average current income (weighted average yield: 6.2%).
- 6-7 funds, mostly leveraged.
- Since inception (7/24/2000): up 179% through 9/30/12 vs. up 147% for Morningstar Taxable Closed-End Fund benchmark.

Municipal Income

- High current income exempt from federal income tax (current yield: 5.0%, or 7.6% tax equivalent yield for a 35% tax bracket).
- 6-7 funds, mostly leveraged
- Since inception (11/23/1999): up 193% through 9/30/12 vs. up 181% for the Morningstar Municipal Closed-End Fund benchmark.
- 8.3% MUB, 8.3% ITM, and 16.6% HYD weighting reflects current defensive bias (Non-Leveraged ETFs)

International Equity

- Global equity exposure via 13 Exchange-Traded and Closed-End Funds.
- Since inception (2/23/1998): up 130% through 9/30/12 vs. up 104% for the MSCI ACWI ex-US benchmark

Four ETF / Closed-End Fund STEPs (cont'd)

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Asset Allocation

- Newest STEP, launched 11/19/08
- Transitioned portfolio on 8/21/09 to MSSB GIC framework
- Puts the MSSB Global Investment Committee's (GIC) asset allocation framework into an investable and actionable portfolio context
- Reflects GIC's Level 1/Model 5 allocation
 - Level 1: investable assets of \$1 million or less
 - Model 5: moderate risk profile
- Acts as a framework for an entire portfolio or core portion of an active portfolio
- ETF choices made with input from ETF Research team, led by Michael Jabara
 - No influence from members of MSSB GIC on specific ETF selections
- Portfolio changes linked primarily to tactical asset weighting changes made by GIC
- Since Inception (11/19/08): up 66% through 9/30/12 vs. up 64% for the benchmark (60% ACWI / 40% BC US Aggregate)

Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

Who Is Responsible for Running the Portfolios?

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Hernando Cortina, CFA, is an Executive Director at Morgan Stanley Smith Barney and leads the Strategic Equity Portfolios (STEP) team. He joined Morgan Stanley Smith Barney in 2010. He began his career as a strategist at Goldman Sachs in 1995, was a global emerging markets and asset allocation strategist at Morgan Stanley between 1996 and 2006, and a principal strategies trader between 2006 and 2008. He was an analyst at Lyncean Capital Management during 2008-2010. Hernando holds the Chartered Financial Analyst designation, earned a S.B. degree from MIT in 1995, and an M.A. from Columbia University in 2002.

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Jeffrey Festog is a Vice President at Morgan Stanley Smith Barney. Jeff joined Morgan Stanley & Co. in 1999, contributing to the 10 Strategic Equity Portfolios (STEP), including the flagship US Model Portfolio founded by former strategist Byron Wien. He became lead manager of the Growth STEP in 2010 as well as the Taxable Income and Municipal Income STEPs in 2006. Jeff joined the firm's Investment management division in 1995, becoming a senior portfolio analyst in 1997, with responsibility of evaluating portfolio risk profiles and established a product evaluation process for senior management. In 2002, he patented a technique for assessing sell-side analyst stock picking skill. Prior to joining Morgan Stanley, Jeff was at Atalanta/Sosnoff, a buy-side investment management firm. He graduated from the Ohio State University with a concentration in Finance.

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US Model Portfolio STEP

PORTFOLIO STRATEGY & RESEARCH GROUP

October 2012

Sector/Ticker/Company		MS Indus View	MS Stock Rating	Rec'd Wt. (%)	Citi Stock Rating	9/28/2012 Price	MS Tgt.	Citi Tgt.	ModelWare 11a	EPS 12e	EPS 13e	12e P/E	13e P/E	Ind. Yld.	Mkt Cap (\$ bns)	Incl. Date
Consumer Discretionary (8.0% vs. S&P 11.0%)																
DIS	Walt Disney	A	O	2.0	2	52	56	50	2.32	3.19	3.63	16	14	1.1	93.8	10/1/09
TGT	Target	I	O	2.0	2	63	74	70	4.20	4.38	4.70	14	14	2.3	41.4	8/16/11
VFC	VF Corporation	I	O	2.0	1	159	180	184	7.91	9.58	11.13	17	14	1.8	17.4	5/1/12
YUM	Yum! Brands	I	O	2.0	2	66	74	75	2.85	3.57	3.77	19	18	2.0	30.6	8/5/10
Consumer Staples (9.0% vs. S&P 10.9%)																
CL	Colgate-Palmolive	I	O	2.0	2	107	116	107	5.03	5.30	5.80	20	18	2.3	51.3	11/22/11
PEP	PepsiCo	I	O	2.0	2	71	77	74	4.40	4.05	4.35	17	16	3.0	110.1	7/26/02
PM	Philip Morris Intl	I	O	3.0	2	90	90	90	4.88	5.24	5.84	17	15	3.8	152.5	3/28/08
WAG	Walgreens	I	E	2.0	3	36	38	32	2.48	1.91	2.62	19	14	3.0	34.7	10/13/10
Energy (12.0% vs. S&P 11.3%)																
CVX	Chevron	A	O	2.0	1	117	120	120	13.44	13.05	12.61	9	9	3.1	230.9	3/16/11
KMI	Kinder Morgan	A	O	2.0	1	36	42	39	0.73	0.85	1.52	NA	NA	3.9	40.2	8/20/12
SLB	Schlumberger	A	O	2.0	1	72	95	84	3.65	4.24	5.29	17	14	1.5	97.0	9/23/09
WMB	Williams Cos	A	O	2.0	1	35	37	36	1.48	1.24	1.44	28	24	3.6	22.3	5/1/12
XOM	Exxon Mobil	A	E	4.0	1	91	90	97	8.42	9.21	8.30	10	11	2.5	425.5	12/9/98
Finance (13.0% vs. S&P 14.6%)																
BLK	BlackRock	I	O	2.0	2	178	219	190	12.54	12.92	14.52	14	12	3.4	31.1	11/15/11
JPM	J.P.Morgan Chase	I	O	4.0	1	40	54	48	4.24	4.76	5.44	9	7	3.0	157.0	7/9/03
PNC	PNC Financial Services	I	O	3.0	2	63	68	64	6.22	6.24	6.38	10	10	2.5	33.4	12/20/06
MMC	Marsh & McLennan	I	O	2.0	1	34	39	40	1.73	2.15	2.49	16	14	2.7	18.6	7/19/12
TRV	Travelers	I	E	2.0	2	68	73	65	3.35	7.14	6.55	10	10	2.7	26.6	11/15/10
Health Care (14.0% vs. S&P 12.0%)																
AGN	Allergan	I	O	2.0	NC	92	106	NC	3.65	4.17	4.75	22	19	0.2	28.0	9/26/12
BAX	Baxter	I	O	3.0	2	60	68	57	4.37	4.52	4.94	13	12	3.0	32.9	7/27/04
BMJ	Bristol Myers Squibb	I	E	2.0	NC	34	36	NC	2.28	1.95	1.90	17	18	4.0	57.1	8/16/11
CAH	Cardinal Health	I	O	2.0	1	39	44	47	3.02	3.43	3.65	11	11	2.4	13.5	12/17/10
COV	Covidien	I	O	3.0	1	59	61	68	4.21	4.21	4.51	14	13	1.8	28.5	8/19/09
TMO	Thermo Fisher Scientific	I	O	2.0	1	59	66	65	4.16	4.82	5.40	12	11	0.9	21.7	3/13/12

US Model Portfolio STEP (cont'd)

Industrials (8.0% vs. S&P 9.8%)

GE	General Electric	I	E	2.0	1	23	23	25	1.37	1.54	1.71	15	13	3.0	242.7	7/17/02
HON	Honeywell	I	O	3.0	1	60	71	70	4.04	4.52	5.07	13	12	2.5	47.3	9/23/10
UTX	United Technologies	A	O	3.0	2	78	95	85	5.49	4.31	6.87	18	11	2.7	71.7	3/24/06

Information Technology (19.0% vs. S&P 20.1%)

AAPL	Apple	I	O	4.0	NC	667	720	NC	35.03	46.05	59.99	14	11	1.6	623.9	5/29/09
ACN	Accenture	I	O	2.0	1	70	75	75	3.60	3.96	4.43	18	16	2.3	48.9	5/10/11
EMC	EMC Corp	I	O	2.0	NC	27	36	NC	1.15	1.32	1.54	21	18	0.0	57.5	8/3/12
MSFT	Microsoft	I	O	3.0	1	30	37	35	2.77	2.80	3.41	11	9	3.1	247.7	11/4/09
ORCL	Oracle	I	O	2.0	1	31	36	37	2.21	2.50	2.76	13	11	0.8	152.8	8/8/08
QCOM	Qualcomm	A	O	4.0	1	62	73	74	2.89	3.20	3.91	20	16	1.6	105.6	1/11/10
V	Visa	I	O	2.0	2	134	147	123	5.26	6.44	7.47	21	18	0.7	91.2	4/15/10

Materials (2.0% vs. S&P 3.5%)

ABX	Barrick Gold	I	O	2.0	1	42	52	50	4.67	4.03	5.20	10	8	1.9	42.1	3/30/12
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Telecom Services (6.0% vs. S&P 3.3%)

CCI	Crown Castle International	I	O	2.0	2	64	65	63	0.61	1.10	1.41	NA	NA	0.0	18.6	12/15/11
CTL	CenturyLink	I	O	2.0	1H	40	50	46	2.65	2.56	2.64	16	15	7.2	24.6	9/13/11
T	AT&T	I	O	2.0	1	38	36	39	2.20	2.37	2.60	16	15	4.7	218.6	7/26/07

Utilities (6.0% vs. S&P 3.5%)

SRE	Sempra Energy	A	O	2.0	1	64	76	65	4.47	4.13	4.30	16	15	3.7	15.7	1/26/12
WEC	Wisconsin Energy	NC	NC	2.0	NC	38	NA	NC	NA	NA	NA	NA	NA	3.2	8.7	12/11/09
XEL	Xcel Energy	A	O	2.0	NC	28	30	NC	1.72	1.75	1.89	16	15	3.9	13.4	1/26/12

Cash 3.0%

Source: Company data, Citi Research, Morgan Stanley & Co. LLC (Morgan Stanley), Morgan Stanley Smith Barney (MSSB), Bloomberg

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Other: NA—Not Available/Not Applicable; NM—Not Meaningful; e—Estimate

++Rating for this company has been removed from consideration in this report because, under applicable law and/or Morgan Stanley & Co. policy, Morgan Stanley & Co. may be precluded from issuing such information with respect to this company at this time.

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US Model Portfolio STEP (cont'd)

PORTFOLIO STRATEGY & RESEARCH GROUP

October 2012

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October 2012

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Disclosure Section (cont'd)

PORTFOLIO STRATEGY & RESEARCH GROUP

October 2012

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(as of date **September 30, 2012**)

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	CEF Coverage Universe		Investment Banking Clients (IBC)		
Closed-End Fund (CEF) Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	28	27.7%	3	25.0%	10.7%
Equal-weight/Hold	50	49.5%	6	50.0%	12.0%
Underweight/Sell	23	22.8%	3	25.0%	13.0%
Total	101	100.0%	12	100.0%	

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