Morgan Stanley

INVESTMENT MANAGEMENT

Defensive U.S. Large Cap Core Equity Strategy

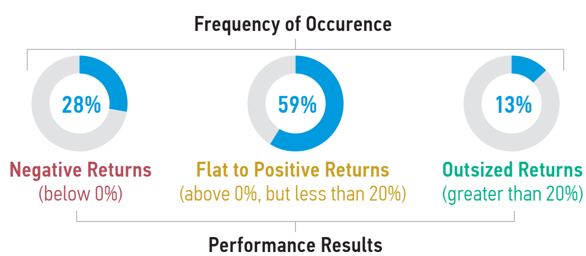
SOLUTIONS & MULTI-ASSET | MANAGED SOLUTIONS GROUP | STRATEGY PROFILE | FEBRUARY 2020

The Defensive U.S. Large Cap Core Equity Strategy seeks to provide investors with core U.S. large cap equity market exposure, but in a more defensive way given its lower volatility relative to traditional vanilla equity investments. The strategy seeks to achieve lower volatility through active management of structured investments offering leveraged upside and a minimum 10% downside buffer. This outcome-oriented solution is meant to be used as a strategic allocation which seeks to complement asset class diversification as an additional risk management tool for the equity sleeve of client portfolios.

Down Markets Happen ...

Over the last 20 years, the U.S. equity market has delivered negative or flat-to-positive returns (0-20%) more frequently than outsized returns (+20%) as shown in the chart below, though post-Global Financial Crisis, investors have benefitted from the longest equity bull market in history. It is prudent to question whether this uptrend will continue and whether we may see increased market volatility.

Rolling 12-Month SPX Returns; Frequency of Results Over the Last 20 Years[1]

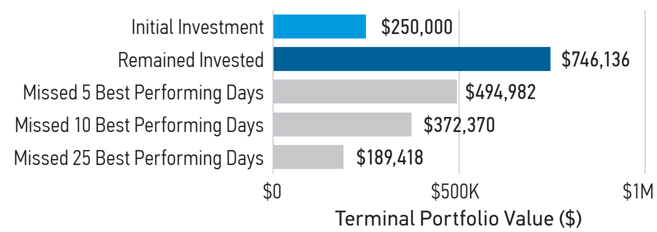


... But Cashing Out Can Hurt Performance

Given these risks, it may be tempting for investors to move out of equities and into cash. Timing the market, however, is very challenging. Over a 20-year period, investors who missed the equity market's 25 best-performing days significantly underperformed those who chose to weather the volatility and remain invested as shown in the chart below.

Missing the market's best performing days can be costly[1]

20-Year Investment in the S&P 500 TR Index



AN OUTCOME-ORIENTED APPROACH TO MANAGING MARKET RISK

The portfolio is designed and implemented to provide investors with a downside buffer as well as leveraged upside participation to a maximum performance cap, which may be beneficial during muted and down markets. The Strategy seeks to achieve this through a portfolio of 10-15 structured investments systematically diversified across maturities, initial strikes, buffers, cap levels, and issuers—all delivered to clients via the Separately Managed Account ("SMA") vehicle.[2]

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[1] MSIM and Bloomberg as 12/31/2018. Please keep in mind that high, double-digit returns are highly unusual and cannot be sustained. Investors should also be aware that these returns were primarily achieved during favorable market conditions. Please be aware that the "bull market" period shown above was a period of unprecedented growth for the stock market, and that such gains are highly unusual. **Keep in mind that past performance is no guarantee of future results.** Growth of Investment illustration is based on an initial investment and assumes reinvestment of dividends and capital gains, but does not include any fees. Performance would have been lower if fees had been included. Results are hypothetical. For illustrative purposes only, do not constitute, and should not be construed as, investment advice or recommendations, and do not reflect the performance of any investment or strategy.

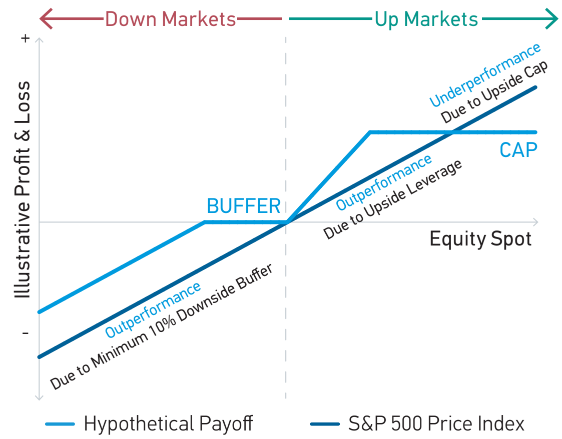
[2] This strategy may not be suitable for all investors. Structured Investments involves risks that are not associated with investments in ordinary fixed or floating debt securities. Payments are subject to the credit risk of the issuer (and the guarantor, if applicable). Investors may lose a significant portion of their initial investment.

Quick Note: Security Mechanics

The structured notes traded in this investment strategy are designed to provide 2X upside participation subject to maximum return with a downside buffer. For example, a note with a 10% maximum return would return 10% if the S&P 500 Index spot price rises by 5% on the final determination date. If the Index rises by 6%, however, the note would still return 10% due to the stated maximum return. For a note with a 10% downside buffer, a 10% decline in the spot price of the S&P 500 Index on the final determination date would result in a 0% return for the note. If S&P 500 were to decline more than 10%, however, the note will incur losses 1:1 with the index beyond the stated buffer amount. For example, a 20% decline in the S&P 500 Index spot price would result in a 10% loss, representing outperformance for the structured investment vs. the index.

Illustrative Payoff Diagram[4]

At structured investment maturity



Investment Process[3]

The portfolio management team actively manages a diversified portfolio of passive structured investments using insights obtained from their qualitative and quantitative research. The portfolio periodically rolls and resets on a timely basis, seeking to capitalize on the prevailing equity, volatility, credit and interest rate regimes. Though the Strategy seeks to maintain a low turnover relative to many quantitatively managed long-only equity strategies, it has the flexibility to liquidate notes in the secondary market and reinvest those proceeds when the portfolio management team deems it to be beneficial for clients.

Systematic Approach

All investment decisions for the Strategy utilize a systematic five-factor framework to determine primary and secondary market buys as well as secondary liquidations. Strategy holdings are reviewed, monitored and analyzed on a daily basis. Transaction costs and tax implications are also key considerations.

This investment process includes, but is not limited to the following five primary factors:

1. **TENOR SELECTION:** Seeks to find an optimal balance to maximize upside terms while minimizing duration.
2. **STRUCTURAL ADVANTAGE:** Monitor equity spot price to determine if structural advantage remains based on a set of dynamic thresholds.
3. **OPPORTUNITY COST:** Assess the tradeoff between any potential forgone returns from a secondary liquidation vs. holding to maturity.
4. **TAXATION:** Actively consider holding period to drive long-term treatment for any realized capital gains vs. short-term treatment for any realized capital losses.
5. **EXECUTION COST:** Perform pre-trade transaction cost analysis to ensure any potential gains from secondary liquidation are not eroded due to execution.

[3] The information above describes how the portfolio management team generally implements its investment process under normal market conditions.

[4] Source: MSIM. For illustrative purposes only. Illustration should not be construed as the result of any MSIM strategy. Maximum loss for the illustrative structured investment pictured above is up to 90% of initial investment in the security. The appreciation potential of the illustrative structured investment depicted is limited by the maximum payment at maturity based on respective cap per each security.

Portfolio Construction and Implementation

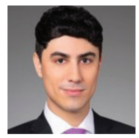
The portfolio will consist of a diversified set of 10-15 structured notes that are linked to the S&P 500 Index and have maturities generally between one and three years. In an effort to address timing risk, the portfolio management team will seek to stagger the maturity dates of the notes so that when one matures or is sold in the secondary market the proceeds will be rolled into a new note. This process is similar in nature to laddering strategies employed by bond investors. When rolling into a new structured investment, the cap and buffer levels are determined based on prevailing equity, volatility, credit and interest rate market conditions.

For questions, please contact your Morgan Stanley sales representative.

Our Investment Team[5]

RON BEZOZA
Portfolio Manager
Managed Solutions Group
Years of Experience: 25

NATHAN SHELDON
Portfolio Manager
Managed Solutions Group
Years of Experience: 16



WILLIAM J. LITTLETON
Client Portfolio Manager
Managed Solutions Group
Years of Experience: 10

[5] Team members may change without notice from time to time.

IMPORTANT DISCLOSURES

The market price of the leveraged upside securities will be influenced by many unpredictable factors. Several factors will influence the value of the leveraged upside securities in the secondary market and the price at which the issuer may be willing to purchase or sell the leveraged upside securities in the secondary market. Although we expect that generally the value of the underlier on any day will affect the value of the leveraged upside securities more than any other single factor, other factors that may influence the value of the leveraged upside securities include:

- the volatility (frequency and magnitude of changes in value) of the underlier;
- dividend rates on the securities composing the underlier;
- interest and yield rates in the market;
- time remaining until the leveraged upside securities mature;
- supply and demand for the leveraged upside securities;
- geopolitical conditions and economic, financial, political, regulatory and judicial events that affect the securities composing the underlier and that may affect the final underlier value; and
- any actual or anticipated changes in our credit ratings or credit spreads.

The value of the underlier may be, and has recently been, volatile, and we can give you no assurance that the volatility will lessen. You may receive less, and possibly significantly less, than the stated principal amount per leveraged upside securities if you try to sell your leveraged upside securities prior to maturity.

The estimated value of your leveraged upside securities is expected to be lower than the initial issue price of your leveraged upside securities. The estimated value of your leveraged upside securities on the pricing date is expected to be lower, and may be significantly lower, than the initial issue price of your leveraged upside securities. The difference between the initial issue price of your leveraged upside securities and the estimated value of the leveraged upside securities is expected as a result of certain factors, including the estimated cost that the issuer may incur in hedging its obligations under the leveraged upside securities, and estimated development and other costs that may be incurred in connection with the leveraged upside securities.

The estimated value of your leveraged upside securities might be lower if such estimated value were based on the levels at which our debt securities trade in the secondary market. The estimated value of your leveraged upside securities on the pricing date is based on a number of variables, including internal funding rates. Internal funding rates may vary from the levels at which benchmark debt securities trade in the secondary market. As a result of this difference, the estimated values referenced above might be lower if such estimated values were based on the levels at which benchmark debt securities trade in the secondary market.

The estimated value of the leveraged upside securities is based on internal pricing models, which may prove to be inaccurate and may be different from the pricing models of other financial institutions. As a result, the secondary market price of your leveraged upside securities may be materially different from the estimated value of the leveraged upside securities determined by reference to internal pricing models.

The estimated value of your leveraged upside securities is not a prediction of the prices at which you may sell your leveraged upside securities in the secondary market, if any, and such secondary market prices, if any, will likely be lower than the initial issue price of your leveraged upside securities and may be lower than the estimated value of your leveraged upside securities. The price at which you may be able to sell your leveraged upside securities in the secondary market at any time will be influenced by many factors that cannot be predicted, such as market conditions, and any bid and ask spread for similar sized trades, and may be substantially less than our estimated value of the leveraged upside securities. As a result, the price at which the issuer may be willing to purchase the leveraged upside securities from you in secondary market transactions, if any, will likely be lower than the price you paid for your leveraged upside securities, and any sale prior to the maturity date could result in a substantial loss to you.

The temporary price at which we may initially buy the leveraged upside securities in the secondary market and the value we may initially use for customer account statements, if we provide any customer account statements at all, may not be indicative of future prices of your leveraged upside securities.

The U.S. federal income tax consequences of an investment in the leveraged upside securities are uncertain. There is no direct legal authority regarding the proper U.S. federal income tax treatment of the leveraged upside securities, and we do not plan to request a ruling from the Internal Revenue Service (the "IRS"). Consequently, significant aspects of the tax treatment of the leveraged upside securities are uncertain, and the IRS or a court might not agree with the treatment of the leveraged upside securities as described by the issuer in the relevant offering documents. If the IRS were successful in asserting an alternative treatment for the leveraged upside securities, the tax consequences of the ownership and disposition of the leveraged upside securities could be materially and adversely affected. In addition, in 2007 the Treasury Department and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. Any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the leveraged upside securities, possibly with retroactive effect.

There is no assurance that a strategy will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that market values of portfolio securities will decline and that the value of underlying securities may therefore be less than what you paid for them. Accordingly, you can lose money investing in this strategy. Please be aware that this strategy is subject to additional risks, including:

General Investment Risk: Investments may be speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment.

Leverage: Investments can be highly volatile and may engage in leverage and other speculative investment practices, which can increase investment loss.

There is the risk that the Adviser's **asset allocation methodology and assumptions** regarding the Underlying Portfolios may be incorrect in light of actual market conditions and the Portfolio may not achieve its investment objective.

Bonds are subject to interest-rate, price and credit risks. Prices tend to be inversely affected by changes in interest rates.

When **comparing asset classes**, keep in mind that each has differences and that all investments involve risks, including the possible loss of principal.

The risks of investing in the Strategy may be intensified because the Strategy's investments may be **concentrated** in securities of a limited number of issuers. As a result, the performance of a particular investment or a small group of investments may affect the Strategy's performance more than it would if the Strategy held securities of a larger number of issuers.

The Adviser and its affiliates are subject to **conflicts of interest** as they are responsible for managing most of the Underlying Funds.

Credit risk refers to the ability of an issuer to make timely payments of interest and principal.

Derivative instruments can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the portfolio's performance.

Derivative Instruments/Strategic Transactions involve risks, including the imperfect correlation between the value of the such instruments and the underlying assets, possible default by the other party to the transaction, illiquidity of the derivative instrument and, to the extent the Adviser's prediction as to certain market movements is incorrect, the risk that the use of such Strategic Transactions could result in losses greater than if they had not been used. These losses may have a potentially large negative impact on the Fund's performance. Equity securities are more volatile then other investments.

Diversification does not eliminate risk of loss.

Fixed-income securities are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In the current rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. Longer-term securities may be more sensitive to interest rate changes. In a declining interest-rate environment, the portfolio may generate less income.

Illiquid securities can be highly illiquid. There may be no secondary market and there may be restrictions on redemptions, assigning or otherwise transferring investments.

Interest-rate risk refers to the fluctuations in the value of a fixed-income security resulting from changes in the general level of interest rates. In a declining interest-rate environment, the Portfolio may generate less income. In a rising interest-rate environment, bond prices fall.

All investing involves risk including the risk of loss.

The value of a security may decline for reasons related to the **issuer**, such as earnings stability, overall financial soundness, management performance and reduced demand for the issuer's goods or services.

The use of **leverage** may increase volatility in the Portfolio.

The strategy may invest in restricted and illiquid securities, which may be difficult for the strategy to sell at a reasonable price. (**Liquidity Risk**)

Individual investments of the portfolio may not perform as expected, and the **portfolio management practices** may not achieve the desired result.

While the investment manager generally will seek to achieve, over a full market cycle, the **level of volatility** in the portfolio's performance as described above, there can be no guarantee that this will be achieved; actual or realized volatility for any particular period may be materially higher or lower depending on market conditions. In addition, the investment manager's efforts to manage the portfolio's volatility can be expected, in a period of generally positive equity market returns, to reduce the portfolio's performance below what could be achieved without seeking to manage volatility and, thus, the portfolio would generally be expected to underperform market indices that do not seek to achieve a specified level of volatility.

Zero coupon securities are more sensitive to interest rate changes than comparable interest-paying securities.

Long Call or Put Option maximum loss is equal to premium paid. Maximum loss for a short put option is the full strike price minus premium generated from the sale. Maximum loss for a short call option is unlimited though mitigated by premium generated from the sale.

Taxes: Investments may involve complex tax structures and delays in distributing important tax information to investors.

The risks shown are some of the risks associated with the Strategy and are not exhaustive.

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A separately managed account may not be suitable for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required. For important information about the investment manager, please refer to Form ADV Part 2.

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

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