

Understanding Your Brokerage and Investment Advisory Relationships

JUNE 2020

Depending on your needs and your investment objectives, Morgan Stanley may assist you with brokerage services, investment advisory services or both. There are important differences highlighted below between brokerage and advisory accounts, including their costs, the services we provide and the rules that govern them. You should carefully consider these differences when deciding which type, or combination of types, of services and accounts are right for you.

Morgan Stanley is registered as both a broker-dealer and as an investment adviser under federal and state securities laws, and we provide services in both capacities. In accordance with the rules of the Financial Industry Regulatory Authority (FINRA), whether acting in a brokerage or advisory capacity, Morgan Stanley must observe high standards of commercial honor and just and equitable principles of trade.

What are Brokerage Accounts and Services?

When we act as a broker-dealer in connection with your brokerage account, we will facilitate the execution of transactions based on your instructions. In addition, when we act as a broker, we also offer investor education, research, financial tools and personalized information about financial products and services, including recommendations about whether to buy, sell or hold securities. We do not charge a separate fee for these services because these services are part of, and should be considered incidental to, our brokerage services.

When we act as your broker-dealer, we will not have discretion to buy and sell securities for you (except in some very limited circumstances). This means that you will provide approval for each trade before it is executed and that you, not we, will make individual buy, sell and hold decisions.

What Is Morgan Stanley's Role When Handling A Brokerage Account?

When providing brokerage services to you, we have to act in your best interest¹ and not put our interest ahead of yours. However, we generally do not have a fiduciary obligation to you nor do we

have an investment advisory relationship with you. Please note the "best interest" obligation described immediately above applies only to Retail Customers, as defined in regulations issued by the SEC. A Retail Customer is a natural person, or the legal representative of such natural person, who (A) receives a recommendation of any securities transaction or investment strategy involving securities from a broker, dealer or a natural person who is an associated person of a broker or dealer, and (B) uses the recommendation primarily for personal, family or household purposes. In addition, our legal obligations and

standard of conduct may vary under state law or regulations, the Employee Retirement Income Security Act of 1974, as amended, or “ERISA,” and any professional conduct standards, as applicable.

What are Investment Advisory Accounts and Services?

In addition to brokerage services, Morgan Stanley offers a variety of investment advisory programs and services to our clients, including comprehensive financial planning, non-discretionary and discretionary portfolio management, and advice on the selection of professional asset managers and securities.

We act as your investment adviser only when we have entered into a written agreement with you that describes our advisory relationship and our obligations to you. You also will receive a disclosure document about our advisory services, called a Form ADV Brochure, that describes, among other things, our business, the services we provide, our advisory fees, our personnel, and potential conflicts between our interests and yours. Investment Advisers are governed by the Investment Advisers Act of 1940 and applicable state securities laws. When acting as your investment adviser, we are considered to have a fiduciary relationship with you. In addition, for advisory retirement accounts,² we are acting as a fiduciary under the Employee Retirement Income Security Act of 1974 (“ERISA”) and/or under section 4975 of the Internal Revenue Code (“Code”).

What is Your Financial Advisor’s Role When Handling an Investment Advisory Account?

Depending on the nature of the investment advisory account you choose,

your Financial Advisor’s authority over the activity in your account will differ. For example, in our Portfolio Management program, your Financial Advisor will have the discretionary authority to execute investment decisions on your behalf. In our Consulting Group Advisor program, your Financial Advisor will work with you and make investment recommendations, but you will maintain discretion over all the investment decisions made in your account. In other account types your Financial Advisor will select or recommend investment products or third-party managers.

How You are Charged for Brokerage and Investment Advisory Accounts?

BROKERAGE ACCOUNTS

In a brokerage account, you generally compensate Morgan Stanley and your Financial Advisor through a commission for each equity transaction, a mark-up/mark-down for bond transactions and a sales charge for mutual fund transactions. Therefore, in a brokerage account your total costs will generally increase or decrease as a result of the frequency of transactions in the account and the type of securities you purchase. Other costs will also apply to your account.

INVESTMENT ADVISORY ACCOUNTS

In an investment advisory account, you generally do not pay fees for each transaction, but instead compensate Morgan Stanley and your Financial Advisor through an annual fee, payable monthly in advance based on the total value of the assets in your investment advisory account at the end of the previous month. If you open an account in one of our wrap fee programs, the Morgan Stanley Advisory fee typically covers our investment advisory services, trade execution, custody of securities at Morgan Stanley and compensation to your Financial Advisor. Depending

upon the investment advisory program you select, you may also be charged a professional money manager’s fee as well as additional fees for overlay services and platform maintenance. In an investment advisory account, your total costs will generally not increase or decrease as a result of the frequency of transactions in the account. Rather, as a general matter, the more assets in your investment advisory account, the more you will pay in fees. As a result, we may have an incentive to encourage you to increase the assets in your investment advisory account.

Our services and responsibilities, as well as the applicable fees charged to your account, are described in the investment advisory agreement we enter with you, including the playback letter provided to you after account opening, as well as the Form ADV Brochure applicable to the program you have selected.

BOTH BROKERAGE AND ADVISORY ACCOUNTS

In both brokerage and investment advisory accounts that include products such as mutual funds or exchange traded funds, you will incur additional expenses including investment management fees of the fund as well as operating expenses that are reflected in the funds’ share price. These expenses are not included in Morgan Stanley’s fees.

Other fees and expenses in addition to those outlined above, or different fee arrangements, may apply in both brokerage and investment advisory accounts as described in our agreements with you.

When We Act as Both Your Broker-Dealer and Your Investment Adviser

We may act as investment adviser and as broker-dealer to you at the same time, and the fact that we do so does not

¹ A recommendation meeting the “Best Interest” standard is a recommendation that reflects the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, based on your investment objectives, risk tolerance, financial circumstances and needs, without regard to the financial or other interests of us or the Advisor or any Affiliate, Related Entity, or other party.

² Retirement accounts include Individual Retirement Account (“IRA”), Roth IRA, Health Savings Account, Coverdell Education Savings Account, Archer Medical Savings Account, a Plan covered by Title I of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), or a plan described in section 4975(e)(1)(A) of the Internal Revenue Code (“Code”).

mean that our brokerage relationships are advisory ones. For example, you may maintain multiple accounts (some of which are brokerage accounts and some of which are investment advisory accounts) with Morgan Stanley at the same time. Also, although we may consider your brokerage account assets in preparing guidelines or determining appropriate investments for your investment advisory accounts, our brokerage relationship continues with respect to your brokerage assets.

For More Information

We encourage you to carefully consider the differences between brokerage and investment advisory services, particularly in terms of our obligations to you, the services we provide and the costs of those services. You should consider your existing and anticipated level of trading activity, the types of investments you wish to hold and the level of discretion you wish to retain over security selection when determining which account type is

right for you. The Form ADV Brochures provide additional information, including disclosure of conflicts, and are available at: www.morganstanely.com/adv.

If you have additional questions, please contact a member of your Morgan Stanley team.