

# Form ADV Program Brochure Morgan Stanley Smith Barney LLC

Institutional Services Program

**July 6, 2018**

2000 Westchester Avenue  
Purchase, NY 10577  
Tel: (914) 225-1000  
Fax: (614) 283-5057

[www.morganstanley.com](http://www.morganstanley.com)

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

**Additional information about MSWM 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 31, 2017. For more details on any particular matter, please see the item in this ADV brochure referred to in the summary below.

**Disciplinary Information.** On June 29, 2018, the SEC entered into a settlement with MSWM regarding an administrative action. In this matter, MSWM, without admitting or denying the findings, consented to the entry of the order that finds that MSWM willfully violated certain sections of the Investment Advisers Act of 1940, specifically Section 206(4) and Rule 206(4)-7 thereunder, as well as Section 203(e)(6). (Item 9)

## Item 3: Table of Contents

|  |    |
|--|----|
| Item 1: Cover Page .....   | 1  |
| Item 2: Material Changes .....   | 2  |
| Item 3: Table of Contents .....  | 3  |
| Item 4: Services, Fees and Compensation .....  | 4  |
| A. General Description of Programs and Services .....  | 4  |
| Institutional Services Program.....  | 4  |
| Account Opening.....   | 7  |
| Investment Restrictions .....  | 7  |
| Trade Confirmations, Account Statements and Performance Reviews .....                                | 7  |
| Risks .....  | 7  |
| Tax and Legal Considerations .....   | 8  |
| Fees.....  | 8  |
| B. Comparing Costs .....   | 10 |
| C. Additional Fees.....  | 10 |
| Custody.....   | 12 |
| Cash Sweeps When MSWM Acts As Custodian.....   | 12 |
| D. Compensation to Financial Advisors.....   | 13 |
| Item 5: Account Requirements and Types of Clients .....  | 13 |
| Item 6: Portfolio Manager Selection and Evaluation.....  | 13 |
| A. Selection and Review of Portfolio Managers and Funds for the Programs .....                       | 13 |
| Calculating Financial Advisors' Performance .....  | 16 |
| B. Conflicts of Interest .....   | 16 |
| C. Financial Advisors acting as Portfolio Managers .....   | 18 |
| Description of Advisory Services .....   | 18 |
| Performance-Based Fees .....   | 18 |
| Methods of Analysis and Investment Strategies.....   | 18 |
| Proxy Voting .....   | 19 |
| Item 7: Client Information Provided to Portfolio Managers .....                                      | 19 |
| Item 8: Client Contact with Portfolio Managers.....  | 19 |
| Item 9: Additional Information.....  | 19 |
| Disciplinary Information .....   | 19 |
| Other Financial Industry Activities and Affiliations .....   | 20 |
| Code of Ethics .....   | 21 |
| Reviewing Accounts.....  | 21 |
| Client Referrals and Other Compensation .....  | 21 |
| Financial Information .....  | 22 |
| Exhibit: Affiliated Money Market Funds Fee Disclosure Statement and Float Disclosure Statement ..... | 23 |

## Item 4: Services, Fees and Compensation

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

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

In addition, we reasonably expect to provide services as a “fiduciary” (as that term is defined in Section 3(21)(A) of the Employee Retirement Income Security Act of 1974 as amended (“ERISA”) and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”)), with respect to “Retirement Accounts” (as that term is described herein). For purposes of this brochure (including the Exhibit), the term “Retirement Account” will be used to cover (i) “employee benefit plans” (as defined under Section 3(3) of ERISA, which include pension, defined contribution, profit-sharing and welfare plans sponsored by private employers, as well as similar arrangements sponsored by governmental or other public employers, which arrangements are generally not subject to ERISA; (ii) individual retirement accounts “IRAs” (as described in Section 4975 of the Code); and (iii) “Coverdell Educational Savings Accounts (“CESAs”).

### A. General Description of Programs and Services

MSWM focuses on providing a wide range of investment consulting services to institutional and high net worth individual clients, including (i) assistance in developing investment policy statements, (ii) asset allocation, (iii) investment manager, mutual fund, commingled fund, collective investment trust, exchange traded fund (“ETF” and together with commingled funds, mutual funds and collective investment trusts, “Funds”) and alternative investment analysis, (iv) performance reporting and (v) custody services. These services are delivered through a select group of institutional consulting teams located across the country that have significant experience serving the investment advisory needs of institutional as well as high net worth individual clients and are supported by a management team dedicated to institutional consulting. Clients include corporations, Taft-Hartley plans, foundations and endowments public and private defined benefit plans, participant directed defined contribution and non-qualified deferred compensation plans (“Participant-Directed Plans”), family offices and high net worth individuals.

MSWM administers and oversees the Institutional Services Program (“IS”) as discussed. This section discusses the various

general matters that apply to the IS program. MSWM and its Financial Advisors may also provide other services in connection with the described program. Any such services will be specified in the investment advisory agreement between MSWM and you (See “Account Opening” below). In addition, the programs and services are subject to change without notice. You should consult with your Financial Advisor for further details.

### Institutional Services Program

MSWM offers the following institutional consulting services to its clients:

***Assistance in the Preparation of Investment Objectives and Policies.*** MSWM shall assist the Client in Client’s review, evaluation and preparation of investment policies and objectives for the account. As set forth in “Performance Reporting” below, MSWM shall assist the Client in developing benchmarks for the performance of the account. MSWM also will provide the performance of the total account so as to assist the Client with the ability to determine progress toward investment objectives. Where your Financial Advisor has been retained as a non-discretionary investment consultant, the Client shall be responsible for monitoring compliance with their investment policies and guidelines.

***Asset Allocation.*** Your Financial Advisor will review your asset allocation and will make asset allocation recommendations in accordance with your investment goals.

***Investment Searches.*** Your Financial Advisor will assist you in identifying and recommending investment managers and Funds (“Investment Products”). These recommendations are based either on (i) MSWM’s Global Investment Manager Analysis Group (“GIMA”) (using different methods to evaluate investment managers and Funds -- analysis on investment managers is provided through MSWM’s Consulting and Evaluation Services (“CES”) programs) or (ii) analysis provided by MSWM’s Graystone Consulting business unit (“Graystone”). Graystone analysis on managers is conducted through its Manager Assessment Program, a proprietary investment management scoring system that assesses investment manager products in that database.

***Non-Researched Funds and Managers.*** Clients also may select Funds and investment managers outside of those covered by GIMA or Graystone analysis. The investment managers, if qualified, will be offered through MSWM’s Investment Management Services Program (“IMS”). MSWM does not evaluate or make any representations concerning such investment managers and shall not assume any liability for any loss, claim, damage or expense attributable to the client’s selection of such managers.

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

***Performance Reporting.*** MSWM provides clients with customized performance reports that assess portfolio

performance relative to benchmarks. The reports may include comparisons to recognized benchmarks and market segments.

***Custody and Statements.*** If selected by you, MSWM may serve as the custodian of all cash, securities and other assets held in the portfolio and credit the portfolio with dividends and interest paid on securities held and principal paid on called or matured securities in the portfolio. You will be provided with written confirmation of securities transactions and account statements at least quarterly.

***Alternative Investments Performance Reporting Service.*** MSWM may provide institutional clients with alternative investments performance reporting. This is a non-discretionary service, and clients are responsible for executing participation agreements directly with each alternative investment. MSWM offers IS clients the ability to receive periodic reports that provide historical performance reporting of their alternative investments that were not purchased through MSWM, are not held in custody by MSWM and are not researched by MSWM. The alternative investment historical performance information provided by this service is based upon information provided, directly or indirectly, to MSWM by the issuer of the alternative investment, or by its sponsor, investment manager, administrator (“Performance Reporting AI”). MSWM’s ability to provide historical or other performance reporting on alternative investments is dependent upon its ability to obtain such information from each Performance Reporting AI.

The performance reporting service enables the client to receive from MSWM periodic reports containing the Client’s historical performance information as reported by the applicable Performance Reporting AI. Client may also receive composite reports that show historical performance of alternative investments as reported by the Performance Reporting AI, along with historical or other performance information on other investments that were/are acquired through MSWM or are held in custody by MSWM.

The performance information provided in a periodic performance review is based on information provided to MSWM by the Performance Reporting AI and is not independently verified by MSWM. MSWM shall not be liable for any misstatement or omission made by the Performance Reporting AI nor for any loss, liability, claim, damage or expense arising out of such misstatement or omission.

This reporting service is not intended to constitute investment advice or a recommendation by MSWM of any alternative investment and MSWM is not evaluating the appropriateness of the initial investment or the continued investment in the alternative investments reported on as part of this service. In addition, the service does not constitute, create or impose a fee-based brokerage relationship, a fiduciary relationship or an investment advisory relationship under the Investment Advisers Act of 1940, as amended, with regard to the investments covered under this service. If the Client is an employee benefit plan or is otherwise subject to ERISA, MSWM is **NOT** acting as a fiduciary (as defined in ERISA) with the respect to the provision of these reporting services as described herein). MSWM is not responsible for and will not provide tax reporting with respect to any alternative investment reported on under this service.

The fee charged to the client does not include any fee or charge for other services in connection with the client’s participation in any alternative investment. Clients are solely responsible for such arrangements.

***Asset/Liability Analysis Services*** MSWM works with third party vendors, whose proprietary asset/liability modeling software is used to generate customized asset liability studies for defined benefit plan clients. The asset/liability analysis service provides certain cash flow modeling, liability funding analysis and funding strategies including custom contribution policies.

## **For Defined Contribution Participant-Directed Plans**

MSWM also offers both non-discretionary services and discretionary services for Participant-Directed Plans that hold assets in custody with custodians other than MSWM.

### ***Non-discretionary Investment Consulting Services***

MSWM offers initial and ongoing investment consulting services, including investment policy statement review, asset style analysis, mutual fund, collective investment trust, group annuity separate account and ETF search and selection and performance measurement.

***Investment Consulting Fund Screening Process.*** MSWM’s fund screening process takes into account both quantitative and qualitative factors. The process is explained further in Item 6A below.

***Risk-Based Models.*** In addition to providing fund screening services, MSWM may provide risk-based asset allocation advice to retirement plans. If requested, MSWM will provide plan sponsor clients with certain strategic asset allocation models that are based on guidance from MSWM’s Global Investment Committee (the “GIC”).

It will be the client’s responsibility to ensure model recommendations can be implemented within their recordkeeping platform. MSWM may assist in determining the capabilities of the client’s recordkeeping platform; however it will be the ultimate responsibility of the client to ensure any recommendations are implemented and offered to participants in a manner that is consistent with the client’s overall goals and objectives.

MSWM will provide the client with performance reporting for such models which will include model performance comprised of the fund performance within the model. MSWM will also provide the client with any changes/updates made to the asset allocation percentages within such models.

The client will be responsible for making any updates or changes to such models with its recordkeeping platform. If requested, MSWM may provide education to plan participants in regard to risk tolerance through various approved educational pieces, however any such education does not represent any attempt by MSWM to use discretion or extend its fiduciary liability under the program client agreement.

*Administrative Services.* MSWM may also assist clients with certain administrative functions as described below. Certain services are not available to all types of clients. These are not investment advisory services and MSWM does not assume status as a fiduciary under ERISA, the Investment Advisers Act of 1940 or any other applicable law or regulation in performing these services. MSWM provides the following administrative services:

- *Asset Classification* – MSWM shall advise as to which asset classes the Client may want to consider offering within the plan. MSWM can also provide the Client with general financial and investment information relating to such concepts as diversification and asset classification with respect to various asset classes and historic rates of return.
- *Plan Sponsor Education* – MSWM makes educational materials available to plan fiduciaries. The available materials may cover topics such as retirement plan administration, fiduciary responsibilities, plan design features and investments.
- *Employee Education* – MSWM shall collaborate with the Client to develop strategies relating to participant enrollment and ongoing employee education, and MSWM can work with the plan to deliver general financial information and investment information relating to such concepts as diversification, asset allocation, retirement planning and plan participation.
- *Plan Provider Search Support.* MSWM shall assist Client with the preparation and distribution of Requests for Proposals (“RFP”) with respect to Client's search for a party to provide recordkeeping or related services for the plan, and shall provide assistance with the evaluation of RFP responses and corresponding finalist interviews and conversion support. Not available for Non-Qualified Deferred Compensation Plans.
- *Plan Services and Expense Review.* MSWM shall provide Client with a report for the purpose of assisting Client with the review of various fees and plan expenses as they relate to the services provided by the plan. This report will generally consist of an overall assessment of current services and expenses, as well as a comparison of such services and expenses to those incurred by other plans of similar size and composition. Not available for Non-Qualified Deferred Compensation Plans.

### ***Discretionary Services***

MSWM also offers discretionary institutional consulting services for eligible clients whereby MSWM is responsible for the discretionary selection of investment options in accordance with the client's investment policy statement utilizing the fund screening process described above and in Item 6.A. MSWM will manage the overall investment process including decisions for fund selection, review and termination and comprehensive monitoring of the Plan's investments. MSWM may also provide discretionary asset allocation model services. In addition to discretionary investment management, clients may receive non-

discretionary administrative services which include assistance with the development of an investment policy, board education, asset classification, provider search assistance, fee and service benchmarking and employee education.

If the Client chooses to provide plan participants with asset allocation model assistance, MSWM, in addition to fund selection and monitoring, will provide either strategic risk-based models or target date model portfolios, collectively, the “Models”. In both cases, the Models are developed by MSWM's Wealth Management Investment Resources group with guidance from the GIC, and are not subject to customization by the client. Only MSWM Approved Funds will be permitted to populate these models.

*Risk-Based Models.* MSWM will present the Client with various separate risk-based models, as described in the previous section, of which the client must select at least three models to be made available to the Plan's participants, ranging from conservative to aggressive. MSWM will assist the Client with the selection of the models but the Client will be solely responsible for selecting at least three models and with each of the following risk levels represented: conservative, moderate and aggressive.

*Target Date Models.* MSWM will present various separate target-date glidepath models to the client. These glidepaths offer the option of i) greater hedge against longevity risk and shortfall risk, ii) greater hedge against inflation risk and market risk, or iii) a balance between inflation risk and longevity risk. MSWM will assist the Client with the selection of the Models but the Client will be solely responsible for selecting which of the models to offer the Plan's participants. Once the Client has selected a target date model, MSWM will construct the model by populating each asset class comprising the model with the MSWM Approved Funds in a manner consistent with the components of the model.

It will be the responsibility of MSWM to ensure that the models can be implemented within their recordkeeping platform. MSWM will be responsible in determining the capabilities of the clients recordkeeping platform and it would be the ultimate responsibility of MSWM to ensure any recommendations are implemented and offered to participants in manner that is consistent with the clients overall goals and objectives.

Risk-Based and Target Date Models are tools used to assist the plan participants in achieving asset allocation goals. These models are not investment products sponsored by MSWM. Client may not make use of any branding associated with MSWM, the GIC or any other affiliate when describing the model portfolio. Termination of contract or model services will require the discontinuance of use of the models.

### ***Small Market Fiduciary Program***

MSWM also offers a Small Market Fiduciary Program for defined contribution participant-directed plans with under \$10 million in assets whereby MSWM is responsible for the discretionary selection of investment options from a set lineup offered by a third-party recordkeeper and investment management of asset allocation models in accordance with the

program's investment policy. MSWM also provides manager selection and evaluation services to the trustee for certain of the investment options offered by the third-party recordkeeper, and receives compensation for these services.

### **Account Opening**

To enroll in any program described in this Brochure, you must enter into the program client agreement ("Client Agreement").

### **Investment Restrictions**

The Client may impose reasonable restrictions on account investments. For example, you may restrict MSWM or the managers from buying specific securities, a category of securities (e.g., tobacco companies) or Fund shares. If you restrict a category of securities, we or the manager will determine which specific securities fall within the restricted category. In doing so, we or the manager may rely on research provided by independent service providers). Any restrictions you impose on individual securities will not be applied to Fund holdings since Funds operate in accordance with the investment objectives and strategies described in their prospectuses.

### **Trade Confirmations, Account Statements and Performance Reviews**

Unless you have appointed another custodian in a program where you may do so, MSWM is the custodian and provides you with written confirmation of securities transactions, and account statements at least quarterly. You may waive the receipt of trade confirmations after the completion of each trade in favor of alternative methods of communication where available. You may also receive mutual fund prospectuses, where appropriate.

We provide performance monitoring to clients with a frequency as requested by the client.

### **Risks**

All trading in an account is at your risk. The value of the assets held in an account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. Investment performance of any kind is not guaranteed, and MSWM's or a Financial Advisor's past performance with respect to other accounts does not predict future performance with respect to any particular account. In addition, certain investment strategies that Financial Advisors may use in the program have specific risks, including those associated with investments in common stock, fixed income securities, American Depositary Receipts, Funds and the investments below. You should consult with your Financial Advisor regarding the specific risks associated with the investments in your account.

***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.

***Risks Relating to Money Market Funds.*** You could lose money in money market funds. Although money market funds classified as government funds (i.e., money market funds that invest 99.5% of total assets in cash and/or securities backed by the U.S. government) and retail funds (i.e., money market funds open to natural person investors only) seek to preserve value at \$1.00 per share, they cannot guarantee they will do so. The price of other money market funds will fluctuate and when you sell shares they may be worth more or less than originally paid. Money market funds may impose a fee upon sale or temporarily suspend sales if liquidity falls below required minimums. During suspensions, shares would not be available for purchases, withdrawals, check writing or ATM debits.

***Risks Relating to Master Limited Partnerships.*** Master Limited Partnerships ("MLPs") are limited partnerships or limited liability companies whose interests (limited partnership or limited liability company units) are generally traded on securities exchanges like shares of common stock. Investments in MLPs entail different risks, including tax risks, than is the case for other types of investments.

Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in such MLP interests are subject to the risks generally applicable to companies in these sectors (including commodity pricing risk, supply and demand risk, depletion risk and exploration risk). Depending on the ownership vehicle, MLP interests are subject to varying tax treatment. Please see "Tax and Legal Considerations" below and any Fund prospectus, for more information. You may obtain any Fund prospectus by asking your Financial Advisor.

***Risks Relating to Funds that Primarily Invest in Master Limited Partnerships.*** In addition to the risks outlined above relating to Master Limited Partnerships, Funds that primarily invest in MLPs generally accrue deferred tax liability. The fund's deferred tax liability (if any) is reflected each day in the fund's net asset value. As a result, the fund's total annual operating expenses may be significantly higher than those of funds that do not primarily invest in Master Limited Partnerships. Please see the fund prospectus for additional information.

***Risks Relating to Funds that Pursue Complex or Alternative Investment Strategies or Returns.*** These Funds may employ various investment strategies and techniques for both hedging and more speculative purposes such as short selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. Alternative investment strategies are not suitable for all investors.

You should also keep in mind that while mutual funds and ETFs may at times utilize non-traditional investment options and strategies, they have different investment characteristics from unregistered privately offered alternative investments. Because of regulatory limitations, mutual funds and ETFs may not invest in as broad a spectrum of investments as privately offered alternative investments. As a result, investment returns and portfolio characteristics of alternative mutual funds may vary from traditional hedge funds pursuing similar investment objectives. They are also more likely to have relatively higher

correlation with traditional market returns than privately offered alternative investments. Moreover, traditional hedge funds have limited liquidity with long “lock-up periods” allowing them to pursue investment strategies without having to factor in the need to meet client redemptions. On the other hand, mutual funds typically must meet daily client redemptions. This differing liquidity profile can have a material impact on the investment returns generated by a mutual fund pursuing an alternative investing strategy compared with a traditional hedge fund pursuing the same strategy.

Non-traditional investment options and strategies are often employed by a portfolio manager to further a fund’s or ETFs investment objective and to help offset market risks. However, these features may be complex, making it more difficult to understand the fund’s or ETF’s essential characteristics and risks, and how it will perform in different market environments and over various periods of time. They may also expose the fund or ETF to increased volatility and unanticipated risks particularly when used in complex combinations and/or accompanied by the use of borrowing or “leverage”.

***Risks Relating to Alternative Investments.*** Alternative investments have different features and risks from other types of investment products. As further described in the offering documents of any particular alternative investment, alternative investments can be highly illiquid, are speculative and not suitable for all investors. For example, alternative investment products may place substantial limits on liquidity and the redemption rights of investors, including only permitting withdrawals on a limited periodic basis and with a significant period of notice and may impose early withdrawal fees. Investing in alternative investments is intended for experienced and sophisticated investors who are willing to bear the high economic risks of the investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include: loss of all or a substantial portion of the investment due to leveraging, shortselling, or other speculative practices; lack of liquidity, in that there may be no secondary market for the fund and none expected to develop; volatility of returns; restrictions on transferring interests in the fund; potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; absence of information regarding valuations and pricing; complex tax structures and delays in tax reporting; less regulation and higher fees than mutual funds; and advisor risk. Alternative investment products may also have higher fees (including multiple layers of fees) compared to other types of investments.

Individual funds will have specific risks related to their investment programs that vary from fund to fund. For more details on these and other features and risks, please carefully read the documentation (including risk disclosures) relating to any selected Investment Product, as well as your Client Agreement.

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

## **Tax and Legal Considerations**

Neither MSWM nor any of our affiliates provide tax or legal advice and, therefore, are not responsible for developing, implementing or evaluating any tax strategies that may be employed by the client. The client should develop any such strategies or address any legal or tax-related issues with a qualified legal or tax adviser.

Investment in MLPs entails different risks, including tax risks, than is the case for other types of investments. Investors in MLPs hold “units” of the MLP (as opposed to a share of corporate stock) and are technically partners in the MLP. Holders of MLP units are also exposed to the risk that they will be required to repay amounts to the MLP that are wrongfully distributed to them. Almost all MLPs have chosen to qualify for partnership tax treatment. Partnerships do not pay U.S. federal income tax at the partnership level. Rather, each partner of a partnership, in computing its U.S. federal income tax liability, must include its allocable share of the partnership’s income, gains, losses, deductions, expenses and credits. A change in current tax law, or a change in the business of a given MLP, could result in an MLP being treated as a corporation for U.S. federal income tax purposes, which would result in such MLP being required to pay U.S. federal income tax on its taxable income. The classification of an MLP as a corporation for U.S. federal income tax purposes would have the effect of reducing the amount of cash available for distribution by the MLP and could cause any such distributions received by the an investor to be taxed as dividend income. If you have any questions about the tax aspects of investing into an MLP, please discuss with your tax advisor.

Investors in MLP portfolios will receive a Schedule K-1 for each MLP in the portfolio, so they will likely receive numerous Schedule K-1s. Investors will need to file each Schedule K-1 with their federal tax return. Also, investors in MLP portfolios may be required to file state income tax returns in states where the MLPs in the portfolio operate. Since some Schedule K-1s may not be provided until after the due date for the federal or state tax return, investors in MLP portfolios may need to obtain an extension for filing their federal or state tax returns. Please discuss with your tax advisor how an investment in MLPs will affect your tax return.

Tax laws impacting MLPs may change, and this could impact any tax benefits that may be available through investment in an MLP portfolio.

## **Fees**

### **Fees for the Institutional Services Program**

***Asset Based Fee.*** The fees for the IS program are negotiable and are subject to a \$10 million portfolio minimum. The standard fee schedule for the IS program is as follows:



| Account Asset Value       | Annual Fee |
|---------------------------|------------|
| On the first \$5,000,000  | 1.35%      |
| On the next \$5,000, 000  | 0.80%      |
| On the next \$15,000,000  | 0.40%      |
| On the next \$25,000,000  | 0.30%      |
| On the next \$50,000,000  | 0.20%      |
| On the next \$100,000,000 | 0.10%      |
| Over \$200,000,000        | negotiable |

**Hard Dollar Fee.** In addition, clients may select any of the services listed below. The fees are negotiable subject to an overall minimum engagement fee of \$15,000.

- Historical analysis
- Investment policy statements
- Strategic asset allocation studies
- Active asset allocation only
- Asset liability analyses -Clients may contract directly with third party vendors for an asset liability analyses in which case MSWM will not commit to this service contractually or charge an additional fee.
- Manager searches
- Performance reporting services

#### **Defined Contribution Participant-Directed Plans**

**Asset Based Fee.** The fees for participant-directed plans are negotiable and subject to a minimum fee per relationship. The standard asset based fee schedule for accounts with a minimum of \$10 million in assets is as follows:

| Account Asset Value       | Annual Fee |
|---------------------------|------------|
| On the first \$5,000,000  | 0.60%      |
| On the next \$5,000, 000  | 0.40%      |
| On the next \$15,000,000  | 0.25%      |
| On the next \$25,000,000  | 0.15%      |
| On the next \$50,000,000  | 0.08%      |
| On the next \$100,000,000 | 0.05%      |
| Over \$200,000,000        | negotiable |

For accounts under \$10 million in assets, fees are negotiable and subject to a maximum fee of 1.00%.

**Hard Dollar Fee.** In addition, for plans with a minimum of \$10 million in assets, the client may select to pay the fees for services as a hard dollar fee based on equivalent asset based fee parameters described above.

#### **Discretionary Services for Defined Contribution Participant-Directed Plans**

The fees for Discretionary Services for participant-directed plans are negotiable and are typically subject to a \$5 million asset minimum.

#### **Full Discretion Services**

When MSWM takes full discretion which includes discretion over manager selection, review and termination, asset allocation models and comprehensive monitoring of the client's portfolio the standard asset based fee schedule for accounts with a minimum of \$10 million in assets is as follows:

| Account Asset Value       | Annual Fee |
|---------------------------|------------|
| On the first \$5,000,000  | 0.75%      |
| On the next \$5,000, 000  | 0.50%      |
| On the next \$15,000,000  | 0.31%      |
| On the next \$25,000,000  | 0.19%      |
| On the next \$50,000,000  | 0.10%      |
| On the next \$100,000,000 | 0.06%      |
| Over \$200,000,000        | negotiable |

For accounts under \$10 million in assets, fees are negotiable and subject to a maximum fee of 1.25%.

#### **Partial Discretion Services**

When MSWM takes partial discretion, which includes discretion over manager selection, review and termination, and comprehensive monitoring of the client's funds, the standard asset based fee schedule for accounts with a minimum of \$10 million in assets is as follows:

| Account Asset Value       | Annual Fee |
|---------------------------|------------|
| On the first \$5,000,000  | 0.70%      |
| On the next \$5,000, 000  | 0.46%      |
| On the next \$15,000,000  | 0.29%      |
| On the next \$25,000,000  | 0.17%      |
| On the next \$50,000,000  | 0.09%      |
| On the next \$100,000,000 | 0.05%      |
| Over \$200,000,000        | negotiable |

For accounts under \$10 million in assets, fees are negotiable and subject to a maximum fee of 1.15%.

### ***Small Market Fiduciary Program***

When MSWM takes full discretion which includes discretion over manager selection, review and termination, asset allocation models and comprehensive monitoring of the client's portfolio for accounts with less than \$10 million in assets, the standard asset based fee schedule is as follows:

| Account Asset Value      | Annual Fee |
|--------------------------|------------|
| On the first \$5,000,000 | 0.75%      |
| Over \$5,000,000         | 0.50%      |

### **General Fee Information**

Generally, fees for the programs described in this Brochure are based on the size of the account (assets under management) and are negotiable based on factors including the type and size of the account and the range of services provided by MSWM. In special circumstances, and with the client's agreement, the fee charged to a client for an account may be more than the annual fees stated in the above section.

The fee is payable as described in the Client Agreement. Generally, unless specified to the contrary, for asset-based fees, the initial fee is due in full on the date you open your account at MSWM and is based on the market value of the account on that date. The initial fee payment covers the period from the opening date through (at your election) the last business day of the current quarter or the next full calendar quarter and is prorated accordingly. Thereafter, the fee is paid quarterly in advance based on the account's market value on the last business day of the previous calendar quarter and is due the following business day. Unless the client elects to hold assets in custody at an outside custodian, the Client Agreement authorizes us to deduct fees when due from the assets contained in the account. If client elects a third party custodian, the client has the option of paying us directly or we can bill the custodian. Unless stated otherwise, generally for hard dollar fees, fees will be payable in advance.

You may terminate participation in the programs described in this Brochure at any time by giving written notice to MSWM. MSWM may (but is not obligated to) accept an oral notice of termination from you in lieu of the written notice. If participation in any of the programs described in this Brochure is terminated, any advisory fees paid in advance will be refunded on a pro-rata basis.

***Accounts Related for Billing Purposes.*** When two or more investment advisory accounts are related together for billing purposes, you can benefit even more from existing breakpoints. If you have two accounts, the "related" fees on Account #1 are calculated by applying your total assets (i.e. assets in Account #1 + assets in Account #2) to the Account #1 breakpoints. Because this amount is greater than the amount of assets solely in Account #1, you may have a greater proportion of assets subject

to lower fee rates, which in turn lowers the average fee rate for Account #1. This average fee rate is then multiplied by the actual amount of assets in Account #1 to determine the dollar fee for Account #1. Likewise, the total assets are applied to the Account #2 breakpoints to determine the average fee rate for Account #2, which is then multiplied by the actual amount of assets in Account #2 to determine the dollar fee for Account #2.

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

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

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

## **B. Comparing Costs**

Cost comparisons are difficult because a particular service may not be offered in other CG programs. Depending on the level of trading and types of securities purchased or sold in your account, if purchased separately, you may be able to obtain transaction execution at a higher or lower cost at MSWM or elsewhere than the fee in these programs. However, such transactions could not be executed on a discretionary basis in a brokerage account. In addition, CG offers other programs where discretionary portfolio management is provided by third party investment managers and the fees in those programs may be higher or lower than the fees in these programs.

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

## **C. Additional Fees**

If you open an account in one of the programs described in this Brochure, you will pay us an asset-based fee for investment advisory services, custody of securities and trade execution with or through MSWM. The program fees do not cover:

- the costs of investment management fees and other expenses charged by Funds (see below for more details)

- “mark-ups,” “mark-downs,” and dealer spreads (A) that MSWM 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 MSWM 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)
- fees or other charges that you may incur in instances where a transaction is effected through a third party and not through us or our affiliates (such fees or other charges will be included in the price of the security and not reflected as a separate charge on your trade confirmations or account statements)
- MSWM account establishment or maintenance fees for its Individual Retirement Accounts (“IRA”) and Versatile Investment Plans (“VIP”), which are described in the respective IRA and VIP account and fee documentation (which may change from time to time)
- account closing/transfer costs
- processing fees or
- certain other costs or charges that may be imposed by third parties (including, among other things, odd-lot differentials, transfer taxes, foreign custody fees, exchange fees, supplemental transaction fees, regulatory fees and other fees or taxes that may be imposed pursuant to law).

### **Funds in Advisory Programs**

Investing in mutual funds and ETFs (collectively, “Funds”) may be more expensive than other investment options offered in your advisory account. In addition to our fee, you pay the fees and expenses of the Funds in which your account is 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. 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 purchases of mutual funds in programs described in 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 and Data Analytic Fees.** MSWM provides fund families with opportunities to sponsor meetings and conferences and grants them access to our branch offices and Financial Advisors for educational, marketing and other promotional efforts. Fund representatives may also work closely with our branch offices and Financial Advisors to develop business strategies and plan promotional events for clients and prospective clients and educational activities. Fund families or their affiliates make payments to MSWM in connection with these promotional efforts to reimburse MSWM for expenses incurred for sales events and training programs as well as client

seminars, conferences and meetings. Although fund families independently decide if and what they will spend on these activities, some fund families agree to make annual dollar amount expense reimbursement commitments of up to \$550,000. Fund families may also invite our Financial Advisors to attend fund family-sponsored events. Expense payments may include meeting or conference facility rental fees and hotel, meal and travel charges.

MSWM also provides fund families with the opportunity to purchase supplemental sales data analytics. The amount of the fees depends on the level of data and the number of products covered. The current range is \$100,000 per year for the most basic mutual fund data package up to \$500,000 per year for the most comprehensive mutual fund sales data package. For an additional fee, fund families that sponsor products in addition to mutual funds (e.g., ETFs, UITs and SMAs) may purchase data analytics on other financial product sales at Morgan Stanley.

These facts present a conflict of interest for MSWM and our Financial Advisors to the extent they lead us to focus on funds from those fund families 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, Financial Advisors and their Branch Office Managers do not receive additional compensation for recommending funds sponsored by fund families that purchase data analytics and/or provide significant sales and training support.

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). MSWM’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.

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). MSWM’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.

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

For more information, please refer to the document “Mutual Fund Share Classes and Compensation”, at [http://www.morganstanley.com/assets/pdfs/wealth-management-disclosures/mf\\_share\\_classes.pdf](http://www.morganstanley.com/assets/pdfs/wealth-management-disclosures/mf_share_classes.pdf) and also available from your Financial Advisor on request. However, please note that client accounts in the advisory programs described in this brochure are not subject to the revenue sharing payments or the administrative service fees described in this document.

**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 MSWM 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) may convert any mutual fund in your IS program account to a share class of the same mutual fund which is a load-waived or no-load share class such as an Institutional share or Financial Intermediary share, or to a share class that is available only to investment advisory clients (collectively, an "Investment Advisory Share"), to the extent available. On termination of your account, or the transfer of mutual fund shares out of your account into another account including a MSWM retail brokerage account, if, at the time of termination or transfer, your account includes Investment Advisory Shares or Managed Account Funds, we may convert these funds to a share class that is available in non-advisory accounts (even though the expense ratio for that share class may be higher than the expense ratio for the fund previously held in your account), or we may redeem these mutual fund shares. The non-advisory mutual fund share class generally has higher operating expenses than the corresponding Investment Advisory Share, which may negatively impact investment performance.

**ETF Data Analytics Licensing Fees.** MSWM offers sponsors of ETFs the opportunity to purchase data analytics for MSWM's transactional activity in the sponsor's ETFs on our platforms. ETF sponsors that purchase ETF data analytics pay a flat amount (the "ETF Analytics Fee") based on the number of the ETFs that the sponsor has available for sale at MSWM. The ETF Analytics Fee ranges from \$50,000 for sponsors with five or fewer ETFs to a maximum of \$550,000 for sponsors with more than one hundred ETFs.

The ETF Analytics Fee is generally paid by the ETF's investment adviser, distributor or other affiliate from its own revenues, profits or retained earnings and not directly from, or as a charge applied against the ETF's assets. However, these revenues, profits or retained earnings may be derived, in part, from fees earned for services provided to the ETF and paid from the ETF's assets. Because ETF Sponsors pay MSWM the ETF Analytics Fee for each of the Sponsor's ETFs offered on our platform, the aggregate ETF Analytics Fee is higher for ETF sponsors that have more ETFs approved for sale. These facts present a conflict of interest for MSWM and our Financial Advisors to the extent it leads us to focus on ETFs offered by sponsors who pay higher aggregate fees.

In order to mitigate these conflicts, Financial Advisors and their branch managers do not receive additional compensation as a result of the ETF Analytics Fee payable to MSWM.

## **Custody**

**MSWM does not act as custodian.** If you retain a custodian other than MSWM, your outside custodian will advise you of your cash sweep options and, as described in the Client Agreement, you will have the option of instructing us on whether you want the fee billed to you directly or to the outside custodian selected by you, and the following sections on cash sweeps will not apply to you.

**MSWM acts as custodian.** Unless you instruct us otherwise, MSWM will maintain custody of all cash, securities and other assets in the account and the following sections on cash sweeps will apply to you.

## **Cash Sweeps When MSWM Acts As Custodian**

Generally, some portion of your account will be held in cash. If MSWM acts as custodian for your account, it will effect "sweep" transactions of free credit balances in your account into interest-bearing deposit accounts ("Deposit Accounts") established under the Bank Deposit Program ("BDP"). For most clients BDP will be the only available sweep investment. Generally, the rate on BDP will be lower than the rate on other cash alternatives. In limited circumstances, such as clients ineligible for BDP or where MSWM otherwise elects, MSWM may sweep some or all of your cash into money market mutual funds (each, a Money Market Fund). These Money Market Funds are managed by Morgan Stanley Investment Management Inc. or another MSWM affiliate.

It is important to note that free credit balances and allocations to cash including assets invested in sweep investments are included in your account's fee calculation hereunder.

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

Clients that are considered Retirement Accounts 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.

For eligibility criteria and more information on cash sweeps in general, please refer to the Bank Deposit Program Disclosure Statement which is available at: [http://www.morganstanley.com/wealth-investmentstrategies/pdf/BDP\\_disclosure.pdf](http://www.morganstanley.com/wealth-investmentstrategies/pdf/BDP_disclosure.pdf)

**Conflicts of Interest Regarding Sweep Investments.** If BDP is your sweep investment, you should be aware that the Sweep Banks, which are affiliates of MSWM, will pay MSWM an annual account-based flat fee for the services performed by MSWM with respect to BDP. MSWM and the Sweep Banks will review such fee annually and, if applicable, mutually agree upon any changes to the fee to reflect any changes in costs incurred by MSWM. Your Financial Advisor will not receive a portion of these fees or credits. In addition, MSWM will not receive cash compensation or credits in connection with the BDP for assets in the Deposit Accounts for Retirement 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 MSWM earns on affiliated Money Market Funds. Thus, MSWM has a conflict of interest in selecting or recommending BDP as the Sweep Investment, rather than an eligible Money Market Fund. Further, MSWM's affiliate, Morgan Stanley Investment Management, serves as the investment advisor to the available Sweep Money Market Funds.

In addition, MSWM, 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.

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 MSWM affiliate) will 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 Account, 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.

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

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

If you invest in one of the programs described in this Brochure, MSWM may charge a fee less than the maximum fee stated above. The amount of the fee you pay is a factor we use in calculating the compensation we pay your Financial Advisor. Therefore, Financial Advisors have a financial incentive not to reduce fees.

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

MSWM offers its services under this Brochure to corporations, Taft Hartley funds, endowments, and foundations, public and private retirement plans funds including 401(k) plan sponsors, non-qualified deferred compensations plans, family offices and high net worth individuals.

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

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

In IS we offer a wide range of investment products (including managers, mutual funds and ETFs) that we have selected and approved. This Item 6.A describes more generally how we select and terminate Investment Options from these programs. If managers have more than one strategy, we may include only some of those strategies in the programs described in this Brochure, may carry different strategies in different programs, and assign different statuses to different strategies. Please refer to the discussion in Item 4 A. for a complete description of the programs.

#### **MSWM's Global Investment Manager Analysis Group**

GIMA evaluates Investment Products. GIMA may delegate some or all of its functions to an affiliate or third party. Investment Products may only participate in the FS or CES programs if they are on GIMA's Focus List or Approved List discussed below. You may obtain these lists from your Financial Advisor. In each program, only some of the Investment Products may be available.

As well as requiring Investment Products to be on the Focus List or Approved List, we look at other factors in determining which Investment Products we offer in these programs, including:

- program needs (such as whether we have a sufficient number of Investment Products available in an asset class)
- client demand and
- the manager's or Fund's minimum account size.

We automatically terminate Investment Products in the CES program if GIMA downgrades them to "Not Approved." We may terminate Investment Products from these programs for other reasons (i.e., the Investment Product has a low level of assets under management in the program, the Investment Product has limited capacity for further investment, or the Investment Product is not complying with our policies and procedures).

**Focus List.** To be considered for the Focus List, Investment Products provide GIMA with relevant documentation on the strategy being evaluated, which may include a Request for Information ("RFI"), asset allocation histories, its Form ADV (the form that investment managers use to register with the SEC), past performance information and marketing literature. Additional factors for consideration may include personnel depth, turnover and experience, investment process, business and organization characteristics and investment performance. GIMA personnel may also interview the manager or Fund and its key personnel, and examine its operations. Following this review process, Investment Products are placed on the Focus List if they meet the required standards for Focus List status.

GIMA periodically reviews Investment Products on the Focus List. GIMA considers a broad range of factors (which may include investment performance, staffing, operational issues and financial condition). Among other things, GIMA personnel interview each manager or Fund periodically to discuss these matters. If GIMA is familiar with a manager or Fund following repeated reviews, GIMA is likely to focus on quantitative analysis and interviews and not require in-person meetings. GIMA may also review the collective performance of a composite of the MSWM accounts managed by a manager/Fund and compare this performance to overall performance data provided by the manager/Fund, and then investigate any material deviations.

**Approved List.** The process for including Investment Products on the Approved List is less comprehensive. Investment Products provide GIMA with relevant documentation on the strategy being evaluated, which may include an RFI, sample portfolios, asset allocation histories, the applicable Form ADV, past performance information and marketing literature. Additional factors for consideration may include personnel depth, turnover and experience; investment process; business and organizational characteristics; and investment performance. GIMA personnel may also interview the Sub-Manager or Fund and its key personnel, typically via conference call.

GIMA also has access to a proprietary algorithm – a rules-based scoring mechanism – that reviews various qualitative and quantitative factors and ranks each Investment Product in a third

party database. GIMA then determines whether the Investment Product meets the standards for Approved List status.

GIMA periodically evaluates Investment Products on the Approved List and Focus List to determine whether they continue to meet the appropriate standards.

**Changes in Status from Focus List to Approved List.** GIMA may determine that an Investment Product no longer meets the criteria for the Focus List, but meets the criteria for the Approved List. If so, MSWM generally notifies program clients regarding such status changes on a quarterly basis.

**Changes in Status to Not Approved.** GIMA may determine that an Investment Product no longer meets the criteria for either the Focus List or Approved List and therefore the Investment Product will no longer be recommended in MSWM investment advisory programs. We notify affected clients of these downgrades. You cannot retain a downgraded manager or Fund in your accounts and must select a replacement from the Approved List or Focus List that is available in the program, if you wish to retain the program's benefits in respect of the affected assets.

In some circumstances, you may be able to retain terminated Investment Products in another advisory program or in a brokerage account subject to the regular terms and conditions applying to that program or account. Ask your Financial Advisor about these options.

MSWM generally specifies a replacement Investment Product for a terminated Investment Product (as discussed in Item 4.A above). In selecting the replacement Investment Product, GIMA generally looks for an Investment Product in the same asset class, and with similar attributes and holdings to the terminated Investment Product.

**Evaluation of Material Changes to Investment Products.** If GIMA learns of a material change to an Investment Product (e.g., the departure of an Investment Manager or Manager Team), MSWM, an affiliate or a third party retained by MSWM or an affiliate, will evaluate the Investment Product in light of the change. This evaluation may take some time to complete. While this evaluation is being performed, the Investment Product will remain eligible for the IS program. The GIMA designation (Focus List or Approved List) for the Investment Product will not be altered solely because this evaluation is in progress. MSWM will not necessarily notify clients of any such evaluation.

**Watch Policy.** GIMA has a "Watch" policy for Investment Products on the Focus List and Approved List. Watch status indicates that, in reviewing an Investment Product, GIMA has identified specific areas of the manager's or Fund's business that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the Investment Product becoming "Not Approved." Putting an Investment Product on Watch does not signify an actual change in GIMA opinion nor is it a guarantee that GIMA will downgrade the Investment Product. The duration of a Watch status depends on how long GIMA needs to evaluate the Investment Product and for the Investment Product to

address any areas of concern. For additional information, ask your Financial Advisor for a copy of GIMA's Watch Policy.

***Tactical Opportunities List.*** GIMA also has a Tactical Opportunities List. This consists of certain Investment Products on the Focus List or Approved List recommended for investment at a given time based in part on then-existing tactical opportunities in the market.

***Other Relationships with Managers and Funds.*** Some managers and Funds on the Approved List or Focus List may have business relationships with us or our affiliates. For example, a manager or Fund may use MS&Co. or an affiliate as its broker or may be an investment banking client of MS&Co. or an affiliate. GIMA does not consider the existence or lack of a business relationship in determining whether to include or maintain a manager or Fund on the Approved List or Focus List.

### **MAP Due Diligence**

Select Graystone teams and the Morgan Stanley Wealth Strategies Group may approve a manager or Investment Products managed by approved managers through the Graystone Manager Assessment Program or the PWM Manager Assessment Program. (PWM is a division of MSWM.)

The reviewing team uses quantitative analysis that assesses all separate account managers in a third party database to narrow the list of potential investment managers for consideration. It then generally conducts further analysis on managers, focusing on qualitative factors (e.g., quality of investment professionals and the manager's investment process).

If the manager is being reviewed by a Graystone team, the Graystone Chief Investment Officer reviews the due diligence for completeness. If the manager is being reviewed by the Wealth Strategies Group, the Research Management Committee also reviews and, if appropriate, approves the manager. (The Research Management Committee reviews certain products made available in Consulting Group programs.) Once a manager has been approved by either reviewing team, it is available for Graystone Consulting, PWM MAP and certain other clients.

The reviewing team generally conducts periodic follow-up due diligence on approved managers (including follow-up interviews with the manager).

### **DC Investment Consulting Fund Screening (For Participant-Directed Plans only)**

In addition to the mutual funds and ETFs that appear on the Focus List and Approved List of GIMA described above, for clients in the Institutional Services program for Participant-Directed Plans, funds may be "approved" for the program in an alternate manner, as well. MSWM applies a proprietary screening process to funds in the Morningstar mutual fund database, which it applies in part using third party software. The screening algorithm, applied quarterly, is based on factors such as performance, ranking, stewardship grade, fees and manager tenure. Funds subject to this process are either approved or not approved for use in the Institutional Services program for

Participant-Directed Plans. MSWM does not maintain a Watch List for these funds equivalent to GIMA's Watch List.

### **Selection of Alternative Investments**

Managers may only participate in the IS program if they are on MSWM's Alternatives Approved List (described below). Managers often offer more than one alternative investment and we may include only some of those alternative investments (or only certain share classes of such alternative investment) in our programs, may carry different alternative investments (or share classes) in different programs, and assign different statuses to different alternative investments.

As well as requiring alternative investments to be on the Alternatives Approved List or Approved List, we look at other factors in determining which alternative investments we offer in these programs, including program needs (such as whether we have a sufficient number of managers available in an asset class), and client demand.

In the programs, investment and business risk due diligence on alternative investments is provided by MSWM through (i) GIMA, (ii) an affiliate of MSWM that may provide due diligence and monitoring services, or (iii) an independent, third-party consulting firm or other organization retained by MSWM and approved by the AIPRC ("Due Diligence Provider") that is also in the business of evaluating the capabilities of alternative investments. Any firm providing due diligence is expected to follow a methodology similar to that used by AIR (described below) or a methodology approved by the AIPRC in reviewing such alternative investments.

On an ongoing basis, the Due Diligence Provider conducts both quantitative and qualitative research on potential candidates. Their research includes, among other things, a review of relevant documents, calls and meetings with the investment team, and an analysis of investment performance. Generally, although the process may be modified for a particular manager or alternative investment as the Due Diligence Provider may deem appropriate, the Due Diligence Provider will typically also conduct on-site visits, review a separate business risk due diligence questionnaire and examine areas such as portfolio pricing, contingency planning, background checks on key principals and other items. Their due diligence covers the alternative investment in question, not the investments in which that alternative investment may in turn invest. For example, for a fund of funds, AIR's research process is applied to the fund of funds, and not to each individual fund in which the fund of funds invests. Also, when evaluating portfolio managers that may be recommended to clients to provide portfolio services, the due diligence typically covers the portfolio manager, not the investments which that portfolio manager may recommend.

If a new alternative investment is viewed as an appropriate candidate by the Due Diligence Provider, the vehicle is presented to an MSWM alternative investment product review committee ("AIPRC"). The AIPRC consists of senior MSWM representatives who are mandated to approve proposed candidates and reconfirm existing vehicles on a periodic basis. Once a new alternative investment is approved by the AIPRC, and all required due diligence materials are verified, it receives

an “Approved” status, is placed on the Alternatives Approved List, a list of alternative investment vehicles in which qualified clients may invest, and is available for allocations to qualified clients on a placement and/or advisory basis. Certain Alternatives Investments on the Alternatives Approved List are available to qualified clients in the programs.

Ongoing monitoring of managers and investment vehicles on the Alternatives Approved List is provided by the Due Diligence Provider. In addition to manager-specific monitoring, the reviewer monitors overall market conditions in their specific strategies of expertise.

MSWM may remove alternative investments from the programs if GIMA or the Due Diligence Provider of the alternative investment downgrades the alternative investment to “Terminate”. We may also terminate managers from these programs for other reasons (e.g., the manager has a low level of assets under management in the program, the manager has limited capacity for further investment, or the manager is not complying with our policies and procedures). Also, GIMA’s head of research can remove an alternative investment vehicle from the Alternatives Approved List without consulting the AIPRC, but all actions must be assessed by the AIPRC at the next meeting.

**Watch Policy.** MSWM has a “Watch” policy for alternative investments on the Approved List. Watch status indicates that, in reviewing an alternative investment, GIMA or the Due Diligence Provider has identified specific areas related to the alternative investment, the manager of the alternative investment, or the markets in general that (i) merit further evaluation by GIMA or the Due Diligence Provider and (ii) may, but are not certain to, result in the removal of the alternative investment from the “Approved List”. Putting an alternative investment on Watch does not signify an actual change in GIMA opinion nor is it a guarantee that AIR will remove the alternative investment. The duration of a Watch status depends on how long GIMA needs to evaluate the reason for the status change, which may include, among things, an evaluation of the markets, the alternative investment, and the manager of the alternative investment.

### **Calculating Financial Advisors’ Performance**

In the programs described in this Brochure, we calculate performance using a proprietary system.

MSWM’s Performance Reporting Group reviews performance information for client accounts, which includes daily reconciliation of positions reported in the firm’s proprietary performance calculation system against the firm’s books and records, and reviewing client accounts & positions where the calculated returns deviate from established thresholds.

For alternative investments, GIMA does not calculate composite manager performance in the programs. Neither MSWM nor a third party reviews performance information to determine or verify its accuracy or its compliance with presentation standards and therefore performance information may not be calculated on a uniform or consistent basis. Generally, the manager of the

alternative investment determines the standards used to calculate performance data.

For alternative investments, valuations used for account statement purposes and billing purposes, and for any performance reports, are obtained from the manager of each selected Investment Option. These valuations (and any corresponding benchmark index values) may be estimates, may be several weeks old as of the dates MS&Co. produces your account statements/reports and calculates your fees and, in the case of index values, may be based on information from multiple sources. The final performance figures for the applicable period may be higher or lower, and MSWM is under no obligation to provide notice of, or compensation to, clients for any difference in performance.

If you invest in a fund of funds, your account documents may use the HFRI Fund of Funds as a benchmark. The FoF Composite consists of over 800 domestic and offshore funds of hedge funds that have at least \$50 million under management or have been actively trading for at least 12 months. It is equally weighted on a fund by fund basis and fund assets are reported in USD on a net of fees basis. It is updated three times a month and the current month’s and the prior three months’ values are subject to change. MSWM is not obligated to notify you of any such changes. The FoF Composite values are likely to be more up-to-date than the data for the selected Investment Options for which it is the benchmark. You cannot invest in the FoF Composite. For more information see <https://www.hedgefundresearch.com>.

## **B. Conflicts of Interest**

**Advisory vs. Brokerage Accounts.** MSWM and your Financial Advisor may earn more compensation if you invest in a program described in this Brochure than if you open a brokerage account to buy individual securities (although, in a brokerage account, you may not receive all the benefits of the programs described in the Brochure). Financial Advisors and MSWM therefore have a financial incentive to recommend one of these programs described in this Brochure. We address this conflict of interest by disclosing it to you and by requiring Financial Advisors’ supervisors to review your account at account-opening to ensure that it is suitable for you in light of matters such as your investment objectives and financial circumstances.

**Payments from Managers.** Managers may also sponsor their own educational conferences and pay expenses of Financial Advisors attending these events. MSWM’s policies require that the training or educational portion of these conferences comprises substantially the entire event. Managers may sponsor educational meetings or seminars in which clients as well as Financial Advisors are invited to participate.

Managers are allowed to occasionally give nominal gifts to Financial Advisors, and to occasionally entertain Financial Advisors, subject to a limit of \$1,000 per employee per year. MSWM’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 a sales target.

We address conflicts of interest by ensuring that any payments described in this “Payments to Managers” section do not relate



to any particular transactions or investment made by MSWM clients with managers. Managers participating in programs described in this Brochure are not required to make any of these types of payments. The payments described in this section comply with FINRA rules relating to such activities. Please see the discussion under “Funds in Advisory Programs” in Item 4.C for more information.

***Payments from Mutual Funds.*** Please see the discussion of payments from fund companies under “Funds in Advisory Programs” in Item 4.C.

***Payments from Managers of Alternative Investments.*** Managers of alternative investments offered in the programs described in this Brochure may agree to pay us additional fees. We have a conflict of interest in offering alternative investments because we or our affiliates earn more money in your account from your investments in alternative investments than from other investment options. However, in cases where we receive a portion of the management fee paid by you to a manager of an alternative investment and we charge a program fee under the programs in this Brochure, we credit such fee to your account. Also, we do not share this money with your Financial Advisor (i.e. the compensation we pay to your Financial Advisor is not affected by the payments we receive from the alternative investments). Therefore, your Financial Advisor does not have a resulting incentive to buy alternative investments in your account, or to buy certain alternative investments rather than other alternative investments in any of the programs in this Brochure.

***Affiliate Acting as Portfolio Manager.*** Where permitted by law, (except for plan accounts), an affiliate of MSWM may have been selected to act as the manager for one or more your investments. Where this occurs, we or our affiliates earn more money than from other investment options. MSWM and the Financial Advisor are also likely to earn more compensation if you invest in a program described in this Brochure than if you open a brokerage account to buy individual securities.

These relationships create a conflict of interest for us or our affiliates as there is a financial incentive to recommend the investments. We address this conflict of interest by disclosing it to you and by requiring Financial Advisors’ supervisors to review your account at account-opening to ensure that it is suitable for you in light of matters such as your investment objectives and financial circumstances.

***MSWM as Placement Agent.*** MSWM also acts a placement agent for certain alternative investments whereby such investments are available through MSWM on a non-advisory basis. When an alternative investment is purchased on a placement basis, different terms and conditions, including different fee arrangements, may apply. For example, when a client invests on a placement basis, they do not pay an ongoing advisory fee, however, they pay an upfront placement fee and the program manager receives a higher program participation fee which is shared with MSWM and its Financial Advisors. A Client investing on an advisory basis may pay higher fees, in the aggregate, than if such investment had been made on a placement basis.

***Different Advice.*** MSWM and its affiliates may give different advice, take different action, receive more or less compensation, or hold or deal in different securities for any other party, client or account (including their own accounts or those of their affiliates) from the advice given, actions taken, compensation received or securities held or dealt for your account.

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

***Trade Allocations.*** In certain cases, trades may be aggregated such that the securities are to be sold or purchased for more than one client in order to obtain favorable execution to the extent permitted by law. The investment manager will then allocate the trade in a manner that is equitable and consistent with its 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.*** MSWM, 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 MSWM 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. MSWM, investment managers and their affiliates receive compensation and fees in connection with these services. MSWM 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 MS&Co., MSWM, investment managers and their affiliates perform investment banking or other services.

***Restrictions on Securities Transactions.*** There may be periods during which MSWM or investment managers are not permitted to initiate or recommend certain types of transactions in the securities of issuers for which MSWM or one of its affiliates is performing broker-dealer or investment banking services or has confidential or material non-public information. Furthermore, in certain investment advisory programs, MSWM may be compelled to forgo trading in, or providing advice regarding, Morgan Stanley securities, and in certain related securities.

These restrictions may adversely impact your account performance.

MSWM, 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 MSWM will not disclose them to clients. MSWM may not be able to act, in respect of clients' account, on any such information, analyses or evaluations.

MSWM, investment managers and their affiliates are not obligated to effect any transaction that MSWM 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. LLC ("MS&Co.") does business with companies covered by their respective research groups. Furthermore, MS&Co. and its affiliates and client accounts may hold a trading position (long or short) in the securities of companies subject to such research. Therefore, MS&Co. has a conflict of interest that could affect the objectivity of its research reports.

**Certain Trading Systems.** MSWM 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 MSWM or its affiliates may have a direct or indirect ownership interest or the right to appoint a board member or observer. If MSWM directly or indirectly effects client trades or transactions through Trading Systems in which MSWM or its affiliates have an ownership interest, MSWM 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 MSWM will route certain customer order flow to its affiliates. Currently, MSWM and/or its affiliates own equity interests (or interests convertible into equity) in certain Trading Systems or their parent companies, including BIDS Holdings LP and BIDS Holdings GP LLC (commonly known as "BIDS"); CHX Holdings Inc.; CHX Global Holdings LLC; National Stock Exchange of India; Miami International Holdings Inc.; Equilend; Euroclear PLC; LCH.Clearnet Group Ltd.; Turquoise Global Holdings Ltd.; CJSX The Moscow Interbank Currency Exchange Settlement House; CME; ICE US Holding Company, LP; MuniCenter – The Debt Center, LLC; OTCderiv Limited; TradeWeb Markets LLC; TIFFE – Tokyo Financial Futures Exchange; ERIS Exchange Holdings LLC; iSWAP Limited; EOS Precious Metals Limited; CreditDeiv Limited; FXGLOBALCLEAR; CME/CBOT/NYMEX; Dubai Mercantile Exchange; Intercontinental Exchange; Tokyo Commodities Exchange; Bombay Stock Exchange; Japan Securities Depository Center Inc.; and Japan Securities Clearing Corporation.

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 MSWM 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 MSWM 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 MSWM or one of its affiliates or (ii) MSWM or one of its affiliates acting for its own proprietary accounts.

**Affiliated Sweep Investments.** MSWM has a conflict of interest in selecting or recommending BDP or Money Market Funds as the Sweep Investment. See Item 4.C above for more information.

**MSWM Affiliate in Underwriting Syndicate; Other Relationships with Security Issuers.** If an affiliate of MSWM 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.

MSWM and/or its affiliates have a variety of relationships with, and provide a variety of services to, issuers of securities recommended for client accounts, including investment banking, corporate advisory, underwriting, consulting, and brokerage relationships. As a result of these relationships with an issuer, MSWM or its affiliates may directly or indirectly benefit from a client's purchase or sale of a security of the issuer. For example, MSWM or its affiliates may provide hedging services for compensation to issuers of structured investments (such as structured notes) recommended for client accounts. In such a case, MSWM or its affiliates could benefit if a client account purchased such an instrument, or sold such an instrument to another purchaser in lieu of selling or redeeming the instrument back to the issuer, as such transactions could result in the issuer of the instrument continuing to pay MSWM or its affiliates fees or other compensation for the hedging services related to such instrument. Similarly, if the hedging service with respect to such an instrument is not profitable for MSWM or its affiliates, MSWM or its affiliates may benefit if MSWM's client accounts holding such instruments sold or redeemed them back to the issuer. We address these conflicts by disclosing them to you.

## **C. Financial Advisors acting as Portfolio Managers**

### **Description of Advisory Services**

In the IS program, Financial Advisors do not act as portfolio managers. See Item 4.A above for a description of the services offered in the programs described in this Brochure.

### **Performance-Based Fees**

The programs described in this Brochure do not charge performance-based fees.

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

Financial Advisors in the programs described in this Brochure may use any investment strategy when providing investment advice to you. Financial Advisors may use asset allocation recommendations of the Morgan Stanley Wealth Management Global Investment Committee as a resource but, if so, there is no guarantee that any strategy will in fact mirror or track these recommendations. Investing in securities involves risk of loss that you should be prepared to bear.

### **Proxy Voting**

MSWM does not offer proxy voting services to its clients in the IS program.

Unless the client authorizes a third party to vote proxies, we will forward to the client or the client's designee, any proxy materials that we receive for the account. We cannot advise you on any particular proxy solicitation.

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

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

MSWM has access to the information you provide at account opening.

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

In the programs described in this Brochure, you may contact your MSWM Financial Advisor at any time during normal business hours.

## **Item 9: Additional Information**

### **Disciplinary Information**

This section contains information on certain legal and disciplinary events.

In this section, "MSDW" means Morgan Stanley DW Inc., a predecessor broker-dealer of MS&Co. and registered investment adviser that was merged into MS&Co. in April 2007. MS&Co. and Smith Barney and/or Citigroup Global Markets Inc. ("CGM") are predecessor investment adviser and broker-dealer firms of Morgan Stanley Wealth Management ("MSWM"). "Citi" means Citigroup, Inc., a former, indirect partial owner of MSWM.

- On August 13, 2008, MS&Co. agreed on the general terms of a settlement with the NYAG and the Office of the Illinois Secretary of State, Securities Department ("Illinois") (on behalf of a task force of the North American Securities Administrators Association ("NASAA")) with respect to the sale of auction rate securities ("ARS"). MS&Co. agreed, among other things, to repurchase at par approximately \$4.5 billion of illiquid ARS held by certain clients of MS&Co. which were purchased prior to February 13, 2008. Additionally, MS&Co. agreed to pay a total fine of \$35

million. Final agreements were entered into with the NYAG on June 2, 2009 and with Illinois on September 17, 2009. The Illinois agreement serves as the template for agreements with other NASAA jurisdictions.

- On March 25, 2009, MS&Co. entered into a LAWC with FINRA. FINRA found that, from 1998 through 2003, MSDW failed to reasonably supervise the activities of two Financial Advisors in one of its branches. FINRA found that these Financial Advisors solicited brokerage and investment advisory business from retirees and potential retirees of certain large companies by promoting unrealistic investment returns and failing to disclose material information. FINRA also held that MS&Co. failed to ensure that the securities and accounts recommended for the retirees were properly reviewed for appropriate risk disclosure, suitability and other concerns. MS&Co. consented, without admitting or denying the findings, to a censure, a fine of \$3 million, and restitution of approximately \$2.4 million plus interest to 90 former clients of the Financial Advisors.
- On June 8, 2016, the SEC entered into a settlement order with MSWM ("June 2016 Order") settling an administrative action. In this matter, the SEC found that MSWM willfully violated Rule 30(a) of Regulation S-P (17 C. F. R. § 248.30(a)) (the "Safeguards Rule"). In particular, the SEC found that, prior to December 2014, although MSWM had adopted written policies and procedures relating to the protection of customer records and information, those policies and procedures were not reasonably designed to safeguard its customers' personally identifiable information as required by the Safeguards Rule and therefore failed to prevent a MSWM employee, who was subsequently terminated, from misappropriating customer account information. In determining to accept the offer resulting in the June 2016 Order, the SEC considered the remedial efforts promptly undertaken by MSWM and MSWM's cooperation afforded to the SEC Staff. MSWM consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, and to pay a civil penalty of \$1,000,000.
- On January 13, 2017, the SEC entered into a settlement order with MSWM ("January 2017 Order") settling an administrative action. The SEC found that from 2009 through 2015, MSWM inadvertently charged advisory fees in excess of what had been disclosed to, and agreed to by, its legacy CGM clients, and, from 2002 to 2009 and from 2009 to 2016, MS&Co. and MSWM, respectively, inadvertently charged fees in excess of what was disclosed to and agreed to by their clients. The SEC also found that MSWM failed to comply with requirements regarding annual surprise custody examinations for the years 2011 and 2012, did not maintain certain client contracts, and failed to adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Investment Advisers Act of 1940 (the "Advisers Act"). The SEC found that, in relation to the foregoing, MSWM willfully violated certain sections of the Advisers Act. In determining to accept the offer resulting in the January 2017 Order, the SEC considered the remedial efforts promptly undertaken by MSWM. MSWM consented, without admitting or denying

the findings, to a censure, to cease and desist from committing or causing future violations, to certain undertakings related to fee billing, books and records and client notices and to pay a civil penalty of \$13,000,000.

- On February 14, 2017, the SEC entered into a settlement order with MSWM settling an administrative action. The SEC found that from March 2010 through July 2015, MSWM solicited approximately 600 non-discretionary advisory accounts to purchase one or more of eight single inverse exchange traded funds (“SIETFs”), without fully complying with its internal written compliance policies and procedures related to these SIETFs, which among other things required that clients execute a disclosure notice, describing the SIETF’s features and risks, prior to purchasing them, for MSWM to maintain the notice, and for subsequent related reviews to be performed. The SEC found that, despite being aware of deficiencies with its compliance and documentation of the policy requirements, MSWM did not conduct a comprehensive analysis to identify and correct past failures where the disclosure notices may not have been obtained and to prevent future violations from occurring. The SEC found that, in relation to the foregoing, MSWM willfully violated section 206(4) of the Investment Advisers Act of 1940 and Rule 206(4)-7 thereunder. MSWM admitted to certain facts and consented to a censure, to cease and desist from committing or causing future violations, and to pay a civil penalty of \$8,000,000.
- On June 29, 2018, the SEC entered into a settlement order with MSWM settling an administrative action which relates to misappropriation of client funds in four related accounts by a single former MSWM financial advisor (“FA”). The SEC found that MSWM failed to adopt and implement policies and procedures or systems reasonably designed to prevent personnel from misappropriating assets in client accounts. The SEC specifically found that, over the course of eleven months, the FA initiated unauthorized transactions in the four related client accounts in order to misappropriate client funds. The SEC found that while MSWM policies provided for certain reviews prior to issuing disbursements, such reviews were not reasonably designed to prevent FAs from misappropriating client funds. Upon being informed of the issue by representatives of the FA’s affected clients, MSWM promptly conducted an internal investigation, terminated the FA, and reported the fraud to law enforcement agencies. MSWM also fully repaid the affected clients, made significant enhancements to its policies, procedures and systems (“Enhanced MSWM Policies”) and hired additional fraud operations personnel. The SEC found that MSWM willfully violated section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder. The SEC also found that MSWM failed to supervise the FA pursuant to its obligations under Section 203(e)(6) of the Advisers Act. MSWM consented, without admitting or denying the findings, to a censure; to cease and desist from committing or causing future violations; to certain undertakings, including certifications related to the implementation and adequacy of the Enhanced MSWM Policies and to pay a civil penalty of \$3,600,000.

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

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

Morgan Stanley (“Morgan Stanley Parent”) is a financial holding company under the Bank Holding Company Act of 1956. Morgan Stanley Parent is a corporation whose shares are publicly held and traded on the New York Stock Exchange. Prior to June 28, 2013, MSWM 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 MSWM. Accordingly, MSWM is now a wholly owned indirect subsidiary of Morgan Stanley Parent.

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

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

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

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

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

These restrictions may adversely impact client account performance.

See Item 6.B above for conflicts that arise as a result of MSWM’s affiliation with MS&Co. and its affiliates.

**Related Investment Advisors and Other Service Providers.** MSWM has related persons that are registered investment advisers in various investment advisory programs (including

Morgan Stanley Investment Management Inc., Morgan Stanley Investment Management Limited and Consulting Group Advisory Services LLC). If you invest your assets and use an affiliated firm to manage your account, MSWM and its affiliates earn more money than if you use an unaffiliated firm. Generally, for Retirement Accounts, MSWM rebates or offsets fees so that MSWM complies with IRS and Department of Labor rules and regulations.

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

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

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

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

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

### **Code of Ethics**

MSWM'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 MSWM's clients above their own and must never use knowledge of client transactions acquired in the course of their work to their own advantage. Supervisors are required to use reasonable supervision to detect and prevent any violations of the Code by the individuals, branches and departments that they supervise.

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

prohibiting certain activities. Key provisions of the Code include:

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

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

### **Reviewing Accounts**

At account opening, your Financial Advisor must ensure that, and the Financial Advisor's Branch Manager (or the Branch Manager's designee) confirms that, the account and the investment style are suitable investments for you.

As an IS client, your Financial Advisor is then responsible for reviewing your account on an ongoing basis and will recommend different asset allocations at any time according to market conditions. Your Financial Advisor will ask you at least annually if your investment objectives have changed. If your objectives change, your Financial Advisor will modify your asset allocation to be suitable for your needs.

See Item 4.A above for a discussion of account statements and performance reporting.

### **Client Referrals and Other Compensation**

See "Payments from Mutual Funds" and "Payments from Managers" in Item 6.B above.

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

**Financial Information**

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

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

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

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

### **Sweep Vehicles in Retirement Accounts**

Retirement Accounts generally effect temporary sweep transactions of new free credit balances into Deposit Accounts established under the Bank Deposit Program.

The table below describes the fees and expenses charged to assets invested in shares of the money market funds in which the account invests (expressed as a percentage of each fund's average daily net assets for the stated fiscal year). Note that:

- The rate of Advisory Fee and Distribution and Service Fees (including 12b-1 fees) (whether in basis points or dollars) may not be increased without first obtaining shareholder approval.
- Expenses designated as "Other Expenses" include all expenses not otherwise disclosed in the table that were deducted from each fund's assets or charged to all shareholder accounts in the stated fiscal year (and may change from year to year).

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

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

MSWM expects to provide services as a fiduciary (as that term is defined under ERISA or the Code) with respect to Retirement Accounts. MSWM believes that investing in shares of the funds for sweep purposes may be appropriate for Retirement Plans because using professionally managed money market funds allows you to access cash on an immediate basis, while providing a rate of return on your cash positions pending investment. As is typical of such arrangements, we use only affiliated money funds for this purpose.

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

The fund expense information below reflects the most recent information available to us as of January 31, 2018, and is subject to change. Please refer to the funds' current prospectuses, statements of additional information and annual reports for more information.

| <b>Fund</b>                                       | <b>Advisory<br/>Fee</b> | <b>Distribution<br/>and Service<br/>Fees</b> | <b>Other<br/>Expenses</b> | <b>Total Annual<br/>Fund<br/>Operating<br/>Expenses</b> | <b>Total Annual Fund<br/>Operating Expenses<br/>After Fee Waivers<br/>and/or Expense<br/>Reimbursements</b> |
|---|-------------------------|--|---------------------------|---|---|
| Government Securities- Participant<br>Share Class | 0.15%                   | 0.50%  | 0.06%                     | 0.71%   | 0.45%   |
| Active Assets Government Trust                    | 0.10%                   | None   | 0.06%                     | 0.17%   | 0.16%   |
| U.S. Government<br>Money Market Trust             | 0.38%                   | 0.10%  | 0.12%                     | 0.59%   | 0.36%   |

**Interest Earned on Float**

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

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

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

Generally, with respect to such assets awaiting investment:

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