

# The Global Investment Committee

Proprietary Insights / Dynamic Asset Allocation

**You've undoubtedly heard of the benefits of asset allocation—**

thoughtfully selecting a combination of asset classes to enhance potential returns while managing risk. At Morgan Stanley Smith Barney, this approach is fundamental to our process. We also believe that you need to take advantage of opportunities that arise in the markets. This is why we employ a dynamic asset allocation process that combines long-term planning with near-term portfolio adjustments.

### **COMBINING LONG-TERM PLANNING WITH TACTICAL OPPORTUNITIES.**

The foundation of our investment process is the interaction between you and your Financial Advisor. Our professionals continually strive to offer intelligent strategies that suit your specific needs and objectives. To help support you and your Morgan Stanley Smith Barney Financial Advisor, the Global Investment Committee is responsible for finding—and generating—some of the best thinking on investing around the world.

The Global Investment Committee is made up of seasoned Morgan Stanley Smith Barney professionals with deep levels of expertise spanning the global spectrum of asset classes, instruments

and investment techniques. The committee also draws upon the best minds of Morgan Stanley & Co. Inc. and Citigroup, as well as insightful sources of information outside the firm and its affiliates.

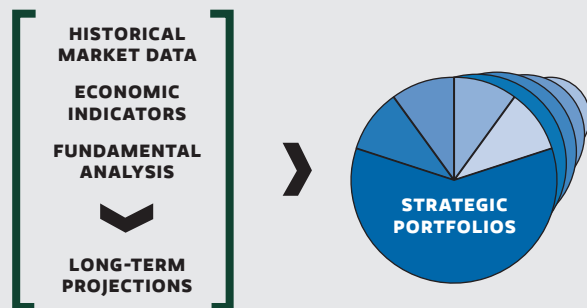
The Global Investment Committee meets regularly to survey the economic landscape to update their base-case outlook, discuss the bullish and bearish scenarios thereof and to develop a tactical investment strategy to capitalize on short-term opportunities. To this end, the committee creates and maintains a range of model portfolios to accommodate different risk profiles, liquidity requirements, reference currencies and other considerations.

### **KEY BENEFITS OF DYNAMIC ASSET ALLOCATION**

- 1 The stability of a long-term plan coupled with the potential to benefit from compelling near-term opportunities, as identified by the Global Investment Committee
- 2 The ability to take advantage of the best investment ideas from three of the world's preeminent investment organizations
- 3 A leading-edge, proprietary approach to incorporating alternative investments, such as real estate, inflation-linked securities, private equity, hedge funds and commodities, into qualifying portfolios

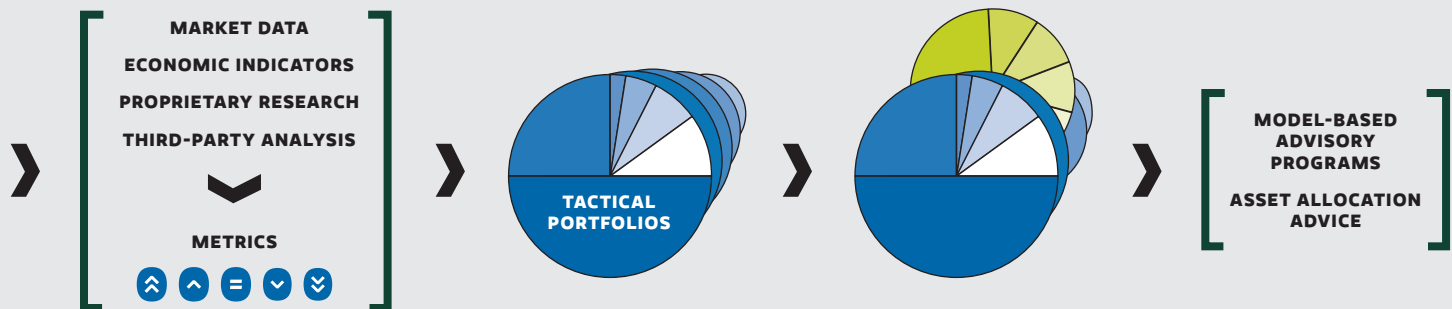
# Our Model Portfolio Development Process

The Global Investment Committee formulates short- and long-term return forecasts, builds financial and real-asset market outlooks and recommends asset allocations.



## 1 Gathering the Inputs to Set the Strategic Allocations

The Global Investment Committee gathers and analyzes historical market data, economic indicators and other fundamental factors to build long-term projections of risk and return for a variety of asset classes. Then, the committee produces a series of strategic portfolios for various investor types, wealth levels and risk-tolerance profiles. These strategic portfolios represent the blend of asset classes identified by the committee as well-suited, over time, to achieving maximum investment return for a given level of risk.



## 2 Adjusting the Mix to Seize Near-Term Opportunities

The Global Investment Committee then formulates a set of base-case assumptions about the global economic outlooks. In order to enhance the risk-adjusted return of our clients' portfolios, the voting members of the committee periodically will recommend deviations—namely underweight or overweight—from the strategic portfolio weightings. These tactical recommendations are designed to capitalize on current and prospective developments in financial and real-asset market conditions.

## 3 Honing the Portfolios

The deviations from the strategic allocations recommended by the Global Investment Committee result in a set of tactical portfolios. These portfolios represent the committee's best thinking on asset allocation over the shorter term—typically 12 months or so.

## 4 Personalizing Your Assets

You, meanwhile, will work with your Financial Advisor to assess which portfolio is right for you given your risk tolerance, the amount you have to invest and your investment objectives.

## 5 Using the Portfolios

We use the model portfolios as the foundation for a range of investment approaches and implementation vehicles. We also use the models to inform our guidance on how you should allocate your investments. In some advisory programs, you will have the option to choose between strategic and tactical advice.

The Global Investment Committee continually monitors and analyzes market, economic and public policy data, as well as other developments that affect investment conclusions.

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The voting members of the committee meet regularly to discuss and determine tactical asset allocations for various model portfolios.

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The voting members of the Global Investment Committee track the results of their tactical recommendations and make adjustments accordingly.

## Universal Asset Allocation

For sophisticated clients with complex needs, focusing on a mixture of traditional investments such as stocks, bonds and cash is simply not enough.

You may need an asset allocation model that considers your entire portfolio, including alternative—and often illiquid—assets such as real estate, private equity, managed futures and hedge funds, as well as other investments such as commodities and inflation-linked securities. That's why we developed our proprietary approach to asset allocation, which employs sophisticated modeling techniques to address the challenges associated with alternative investments,

which include limited and sometimes biased historical data. This methodology underpins the committee's portfolio-construction process. Asset allocation does not necessarily assure a profit or protect against loss in declining financial markets. Nevertheless, a well-thought-out asset allocation plan tailored to your objectives and risk tolerance that is regularly monitored and rebalanced can keep you from making an emotionally driven decision that could take you off course.

## Putting It All to Work

We use the Global Investment Committee's model portfolios in a number of ways. For instance, they represent the foundation of several model-based advisory programs that encompass a wide variety of investment options. In

addition, the model portfolios are intended to help guide your investment allocation decisions. Either way, we understand what it means to entrust your assets to us. Your Morgan Stanley Smith Barney Financial Advisor will

use the work of the Global Investment Committee—which, in turn, taps the breadth and depth of Morgan Stanley and Citigroup—on your behalf.

## Core Principles of the Global Investment Committee

1

Returns are important, but standard deviations and volatility deserve equal attention. Limiting downside risk is essential.

2

Correlations are crucial for formulating a mix of asset classes to produce optimal risk-adjusted returns.

3

Asset performance tends to revert to the mean.

4

Asset prices are driven by fundamentals and valuation, and they may be influenced by psychological, technical and liquidity factors.

## The Decision Makers of the Global Investment Committee

The voting members of the Global Investment Committee determine the investment outlook that guides our advice to clients. As the biographical sketches on the right attest, these are experienced investment professionals. The voting members of the committee constantly meet to discuss developing economic and market conditions, review its tactical outlook and recommend model portfolio weightings.

The Global Investment Committee is made up of senior professionals and noted authorities from across

Morgan Stanley Smith Barney and its affiliates, Morgan Stanley and Citigroup. To learn about each member of the committee, please ask your Financial Advisor for the *Meet the Global Investment Committee* brochure.

The Global Investment Committee communicates its findings and outlook through numerous periodicals such as *On the Markets* and *The GIC Monthly*, special reports, conference calls and Web casts. Ask your Financial Advisor for a copy.



JEFF  
APPLEGATE

Jeff Applegate is the chief investment officer of Morgan Stanley Smith Barney, responsible for strategic and tactical asset allocation advice. He leads the investment strategy group and chairs the Global Investment Committee. Mr. Applegate is also on the Morgan Stanley Retirement Plan Committee. Previously, Mr. Applegate was the chief investment officer at Citigroup Global Wealth Management and, before that, Franklin Templeton. Earlier in his career, he was chief investment strategist for Lehman Brothers and Credit Suisse. Mr. Applegate began his career as an analyst in 1974. He earned a BA in international studies from American University and a B. Litt. in politics from Oxford University. He is a member of the New York Society of Security Analysts and the CFA Institute.





**DAVID M.  
DARST, CFA**

David M. Darst is the chief investment strategist for Morgan Stanley Smith Barney and vice-chairman of the Global Investment Committee. He joined Morgan Stanley in 1996 from Goldman Sachs. Mr. Darst authored *The Complete Bond Book*; *The Handbook of the Bond and Money Markets*; *The Art of Asset Allocation*; *Mastering the Art of Asset Allocation*; and *Benjamin Graham on Investing*. He also wrote *The Little Book That Saves Your Assets*, which ranked on the best-seller lists of *The New York Times* and *BusinessWeek*. He is also a frequent guest on CNBC, Bloomberg, FOX and PBS. Mr. Darst earned a BA at Yale University and an MBA at Harvard Business School and has served on the faculty of both schools. He is a CFA charterholder and member of the NY Society of Security Analysts.



**EDWARD M.  
KERSCHNER, CFA**

Edward M. Kerschner, CFA, is a consultant of Morgan Stanley Smith Barney. He began his career in 1974 with Cowen & Co. and since then has held positions as the chief investment officer at Paine Webber, UBS and Citigroup. More recently, he founded E.M. Kerschner, LLC—"The Thematic Research Group." *Institutional Investor* called Mr. Kerschner "one of the deans of thematic investing." Since 2001, he has also been an adjunct professor of finance at New York University's Leonard N. Stern School of Business. Mr. Kerschner received a BS from the New York University School of Engineering and Science and an MBA from the New York University Graduate School of Business Administration.



**DAN  
NELSON**

Dan Nelson is head of the Morgan Stanley Smith Barney Portfolio Strategy & Research Group. The group includes the equity model portfolio team; exchange-traded funds and models; fixed income strategy and models; closed-end funds; and technical analysis. In recent years, Mr. Nelson oversaw the design and development of the Portfolio Strategy & Research Group's expansion into London and Hong Kong. Over the course of his 35-year career with Smith Barney, Mr. Nelson has had management responsibility for the portfolio review group, equity high net worth program, portfolio advisory program and portfolio management program.



**CHARLES  
REINHARD**

Charles Reinhard is the deputy chief investment officer for Morgan Stanley Smith Barney. Prior to joining the firm in 2008, he was the director of portfolio strategy and associate director of research for Neuberger Berman and served on the Lehman Brothers asset management unit's Asset Allocation Committee. He was previously the senior US strategist at Lehman Brothers. Mr. Reinhard began his career in 1987 and has had equity, fixed income, currency and commodity strategy responsibilities at other top firms. Mr. Reinhard received a BS in managerial economics with high honors from Carnegie Mellon University and an MBA from the New York University Stern School of Business.



**DOUGLAS  
SCHINDEWOLF**

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Douglas Schindewolf is the director of tactical asset allocation for Morgan Stanley Smith Barney and cochair of the Global Portfolio Committee. He joined Smith Barney's Consulting Group as a member of its Asset Allocation Committee in April 2000 and served as committee chairman from September 2000 through December 2005. Prior to that, Mr. Schindewolf held the position of financial economist in the firm's research department since 1986. Before joining Smith Barney, he worked at the Federal Reserve Bank of New York as an associate economist. Mr. Schindewolf received his BS in finance from Rider University and an MS in economics from New York University.



**ANDREW  
SLIMMON**

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Andrew Slimmon leads Morgan Stanley Smith Barney's Applied Equity Advisors and is senior portfolio manager for all its strategies. He joined Morgan Stanley in 1991, and has served as chief investment officer of Morgan Stanley Trust Company and as a member of the Morgan Stanley Trust Company Asset Allocation Committee. Mr. Slimmon first joined Morgan Stanley as an advisor in the Private Wealth Management unit. He began his career in 1986 as a buy-side equity research analyst. Mr. Slimmon earned a BA degree in economics from the University of Pennsylvania and an MBA from the University of Chicago.



**MARTYN  
SURGUY**

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Martyn Surguy joined Morgan Stanley as the chief investment officer for Private Wealth Management's Europe, Middle East and Africa region in May 2012. Before joining the firm, Mr. Surguy spent 15 years at Deutsche Bank Private Wealth Management, where he was responsible for €12 billion in client assets, as chief investment officer of its international (global ex US and Germany) businesses between 1999 and 2009. Prior to joining Deutsche, Mr. Surguy worked for Rothschild Asset Management. He qualified as a Chartered Accountant with KPMG in 1989 and is a graduate in politics from the University of York.

**At Morgan Stanley Smith Barney,** we dedicate ourselves to helping you succeed by delivering sophisticated investment advice that is customized to your specific objectives. To do so, we draw upon the global capabilities and extensive resources of Morgan Stanley Smith Barney and its affiliates, Morgan Stanley & Co. Inc. and Citigroup Inc.

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Each set of GIC Asset Allocation Models is broken down into eight model portfolios conforming to various risk tolerance levels. In each case, Model 1 is the least risky portfolio and is composed mostly of bonds. As the model numbers increase, the models introduce higher allocations to equities and become riskier. Alternative/absolute return investments may be used in some or all of the models and provide increased asset class diversification.

Standard deviation is a measure of the variability of returns. It is useful for comparing the risk of investment alternatives.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying

off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

The initial interest rate on an inflation-linked security may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in CPI. However, there can be no assurance that these increases in CPI will occur. Investors should be made aware of other relevant risks including interest rate risk, credit risk and call risk.

Stocks fluctuate in value and may be worth more or less than their original cost. Past performance is no guarantee of future results.

Alternative investments are speculative and include a high degree of risk and are suitable only for long-term investors willing to forego liquidity and put capital at risk for an indefinite period of time. Investors could lose all or a substantial amount of their investment.

Managed futures investments are speculative, involve a high degree of risk, use significant leverage, are generally illiquid, have substantial charges, subject investors to conflicts of interest, and are suitable only for the risk capital portion of an investor's portfolio. Before investing in any partnership and in order to make an informed decision, investors should read the applicable offering documents carefully for additional information, including charges, expenses and risks. Managed futures investments do not replace equities or bonds but rather may act as a complement in a well diversified portfolio.

Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to: (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity.

REITs investing risks are similar to those associated with direct investments in real estate: lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.