Client Conversations

GLOBAL INVESTMENT COMMITTEE

Investing with Impact: Create Economic, Social and Environmental Value

Investing with Impact: Aligning Goals and Values

<u>Investing with Impact:</u> Investment approaches that seek to generate above-average returns alongside positive social and/or environmental impact.

**ESG = Environmental, social and governance*

Source: Morgan Stanley Wealth Management GIC

Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material.

Investor Demand for Sustainable Investments Is Growing

Increasingly, investors are defining long-term value not only as realizing attractive returns, but also as generating positive environmental and/or social impact

71% of investors are interested in sustainable investing[1] and **80%** of US money managers[2] say their decision to offer ESG strategies is in response to client demand

Millennial investors are nearly **2x** more likely to invest in companies or funds that target specific social or environmental outcomes[2]

Female investors are nearly **2x** as likely as male investors to consider both rate of return and positive impact when making an investment[1]

Nearly half (**45%**) of all individual investors believe companies focused on sustainability are more innovative, and one in three (**30%**) individual investors believes sustainable companies attract better talent[1]

Source: (1) Morgan Stanley Institute for Sustainable Investing ' Sustainable Signals,' February 2015. (2) US SIF Trends Report, 2014. Morgan Stanley Wealth Management GIC

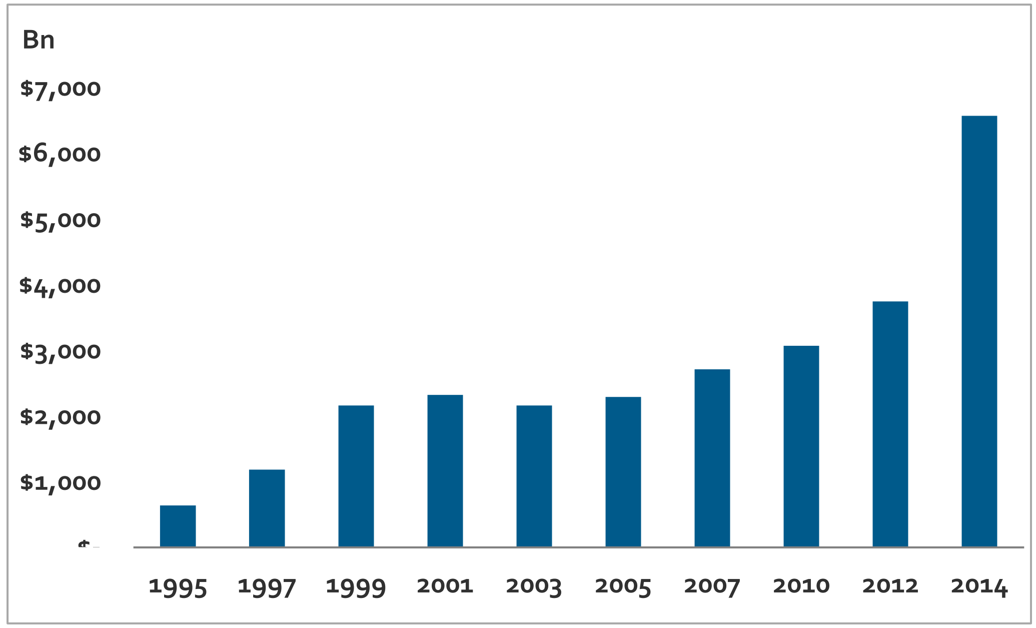
Sustainable Investing Is Becoming Mainstream

$1 in every $6 under professional management in the U.S. is aligned with sustainable, responsible and impact investing strategies[1].

This includes the assets of large public foundations, leading university endowments, state and local pensions, and a growing number of corporations are adjusting their strategies to better fulfill particular missions, improve returns and effectively manage risk.

Professionally Managed US Assets Utilizing Sustainable Investing Criteria

Billions of US Dollars, as December 31, 2014



Source: US SIF

Source: (1) US SIF Trends Report, 2014. Morgan Stanley Wealth Management GIC

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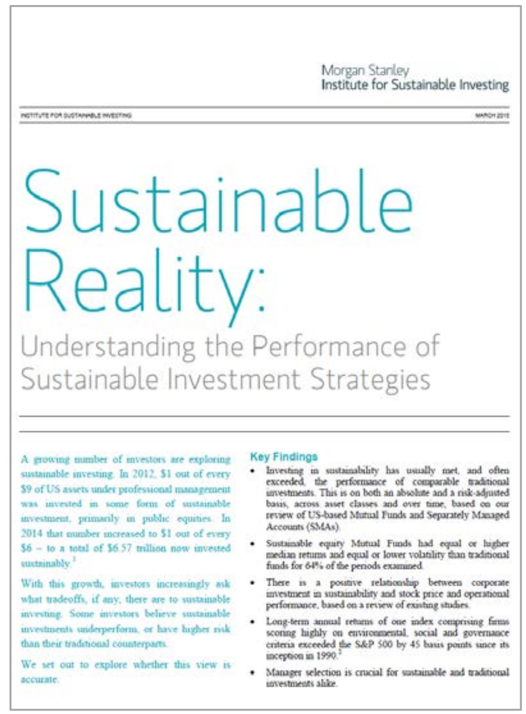
The Business Case for Sustainable Investments

- Morgan Stanley's Institute for Sustainable Investing conducted a proprietary study[1] on over 10,000 mutual funds and 2,800 Separately Managed Accounts over 7 years. The results showed that sustainable investments usually met, but often exceeded, the performance of traditional investments. Key findings below[1]:
  - Equity mutual funds met/exceeded median returns and met/fell below median volatility of traditional funds for 64% of the periods examined, compared to their traditional counterparts.
  - Long-term annual returns of one index (MSCI KLD 400 Social Index) comprising companies scoring highly on ESG criteria exceeded the S&P 500 by 45 basis points since its inception in 1990 (10.14% compared to 9.69% for the S&P 500; July 1990 - December 2014).
  - Positive relationship between corporate investment in sustainability and stock price and operational performance.



Morgan Stanley
Institute for Sustainable Investing

Sustainable Reality:

Understanding the Performance of Sustainable Investment Strategies

A growing number of investors are exploring sustainable investing. In 2012, $1 out of every $9 of US assets under professional management was invested in some form of sustainable investment, primarily in public equities. In 2014 that number increased to $1 out of every $6 – to a total of $6.57 trillion now invested sustainably.[1]

With this growth, investors increasingly ask what tradeoffs, if any, there are to sustainable investing. Some investors believe sustainable investments underperform, or have higher risk than their traditional counterparts.

We set out to explore whether this view is accurate.

Key Findings

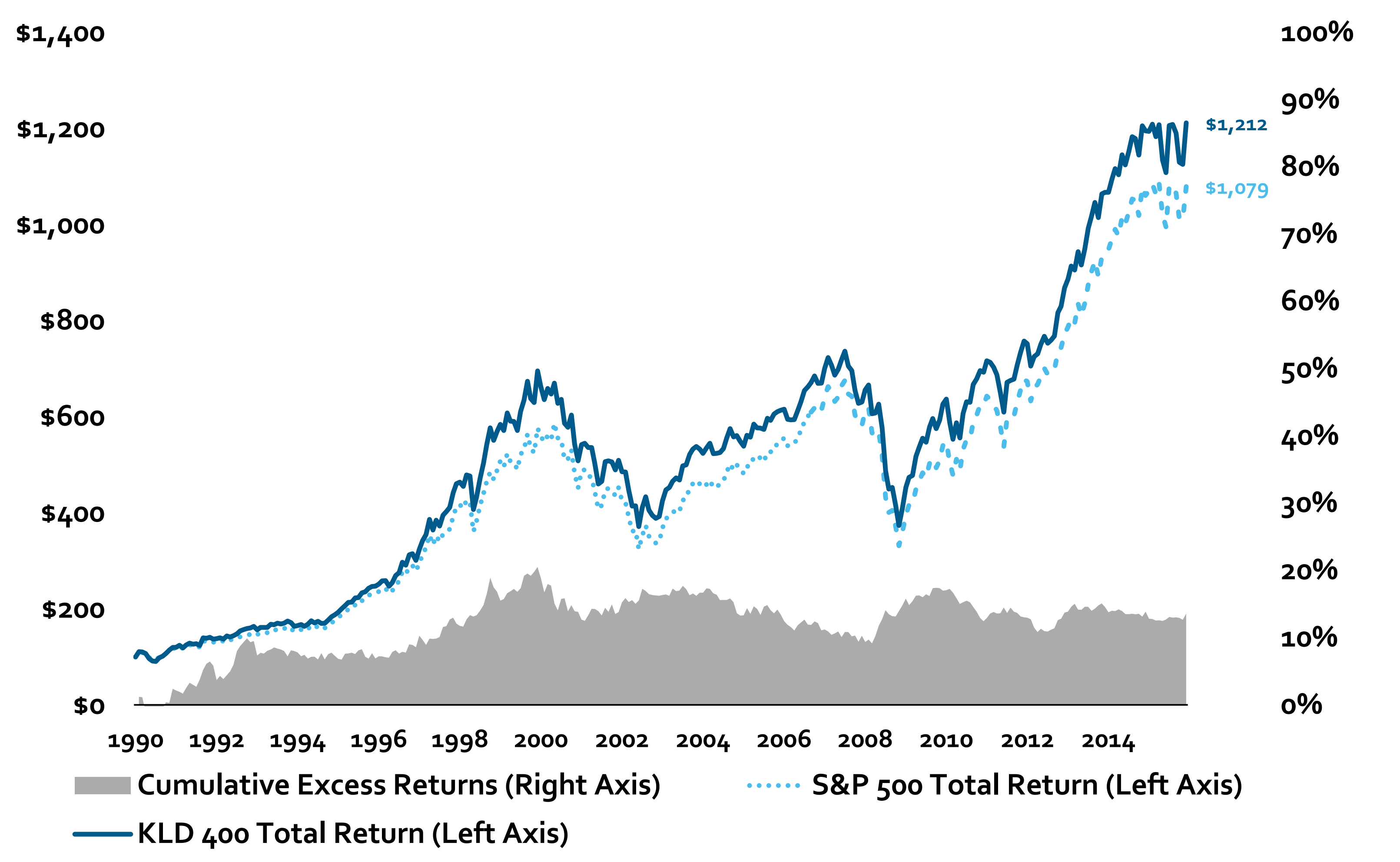
- Investing in sustainability has usually met, and often exceeded, the performance of comparable traditional investments. This is on both an absolute and a risk-adjusted basis, across asset classes and over time, based on our review of US-based Mutual Funds and Separately Managed Accounts (SMAs).
- Sustainable equity Mutual Funds had equal or higher median returns and equal or lower volatility than traditional funds for 64% of the periods examined.
- There is a positive relationship between corporate investment in sustainability and stock price and operational performance, based on a review of existing studies.
- Long-term annual returns of one index comprising firms scoring highly on environmental, social and governance criteria exceeded the S&P 500 by 45 basis points since its inception in 1990.[2]
- Manager selection is crucial for sustainable and traditional investments alike.

Source: 1) Morgan Stanley Institute for Sustainable Investing ' Sustainable Reality,' February 2015, Morgan Stanley Wealth Management GIC

Sustainable Investing Doesn't Require Sacrificing Returns

KLD Index Governed with Sustainable Criteria Has Historically Outperformed the S&P 500

April 30, 1990 through March 31, 2016



Source: Bloomberg, Morgan Stanley Wealth Management GIC

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A History of Strong Performance

Performance data from May 1990 (inception) – March 31, 2016

	Return (%)	StDev(%)	Beta vs. Market	Alpha vs. Market (%)	R-Squared vs. Market (%)	Sharpe Ratio	Tracking Error vs. Market (%)
MSCI KLD 400 Social Index	10.10	15.14	1.02	0.37	97.01	0.52	2.64
S&P500	9.61	14.61	1.00	0.00	100.00	0.50	0.00

Top 10 Constituents of MSCI KLD 400 Social Index

As of March 31, 2016

1. Microsoft
2. Alphabet C
3. Proctor & Gamble CO
4. Alphabet A
5. Verizon Communications
6. Coca Cola (the)
7. Disney (Walt)
8. Intel Corp.
9. PEPSICO
10. Merck & CO

Source: MSCI, Morgan Stanley Wealth Management GIC. Beta is defined as unprotected exposure to market fluctuations. Alpha is adding value by security selection. R-squared is a statistical measure of how close the data are to the fitted regression line. R-squared values range from 0 to 100. An R-squared of 100 means that all movements of a security are completely explained by movements in the index. Sharpe ratio is calculated by subtracting the risk-free rate—such as that of the 3-month US Treasury bill—from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns. Standard deviation (volatility) is a measure of the dispersion of a set of data from its mean. Tracking error measures how closely a portfolio's return follows its index return.

The Tradition of Investing With Impact

1898
Quakers Friends Fiduciary corporation founded and adopts no weapons, alcohol or tobacco investment policy

1935
Morgan Stanley founded

1968
Ford Foundation creates Program-Related Investments to place endowment funds directly into income-generating projects with a social purpose

1973
Interfaith Center on Corporate Responsibility founded and files first shareholder resolution

1977
- Congress passes CRA Act to reduce discriminatory credit practices against low-income neighborhoods
- Pax World launched first socially responsible investing mutual fund
- Sullivan Principles of Action and Divestment announced due to apartheid in South Africa

1984
U.S. SIF, the sustainable investing industry association, founded

1990
Domini Social Index created (now MSCI KLD 400 Social Index)

1993
$625 billion screened to exclude investment in South Africa as a result of apartheid

2005
Norway Government Pension and U.S.'s largest pension, CalPERS, commit to 100% integration of sustainability over 15 years

2006
- Rockefeller Foundation launches major Impact Investing approach and the term emerges globally
- UN Principles for Responsible Investment launched – assets under management by signatories is $4 trillion

2009
Bloomberg adds significant sustainability news and ESG data coverage

2010
Harvard launches Initiative for Responsible Investment (IRI) – previously at Boston College

2011
- White house convenes investors, policymakers, entrepreneurs focused on impact investing
- Sustainable Accounting Standards Board launched; Michael Bloomberg named Chair in 2014

2012
- **Morgan Stanley Launches *Investing With Impact Platform in Wealth Management***
- 350 org catalyzes fossil-fuel divesting campaigns across college campuses
- U.S. SIF Trends Report: $3.74 trillion in U.S. sustainably managed assets

2013
Morgan Stanley Launches *Institute for Sustainable Investing in Global Sustainable Finance*

2014
U.S. SIF Trends Report: $6.5 trillion in U.S. sustainably managed assets, representing 76% growth from 2012

2015
- Pope Francis releases Encyclical Letter that includes call to action on climate change mitigation
- UN Principles for Responsible Investment assets under management by signatories reaches $59 trillion AUM, a 29% year-on-year increase

Source: Morgan Stanley Wealth Management GIC, Bloomberg, FundFire, United Nations Principles for Responsible Investment, US SIF: The Forum for Sustainable and Responsible Investment

Investing With Impact Framework

Investing with Impact is an overarching concept comprised of four different approaches: Values Alignment, ESG Integration, Sector Exposure and Impact Investing, as outlined in our proprietary Framework below. This Framework seeks to distill best practices and key approaches to achieving investors' impact objectives with the goal of advancing the industry forward.

Minimize Objectionable Impact → **Targeted Impact**

	VALUES ALIGNMENT	ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INTEGRATION	THEMATIC EXPOSURE	IMPACT INVESTING
DEFINITION	• **Managing exposures by intentionally avoiding investments based on specific criteria**	• **Proactively considering ESG criteria alongside financial analysis to identify opportunities and risks during investment process**	• **Focusing on themes and sectors dedicated to solving sustainability-related domestic and global challenges**	• **Allocating to investment funds focused on private enterprises structured to deliver specific positive social and/or environmental impacts**
IMPACT INVESTMENT CHARACTERISTICS	• Public equity, public fixed income, alternatives • Differentiated by restriction criteria and degree of shareholder advocacy • Not proactively seeking environmental and social impact	• Public equity and public fixed income • Differentiated by ESG integration process and degree of shareholder advocacy • May also include screens	• Public equity and public fixed income • Differentiated by macro analysis, sustainability research and sector focus	• Differentiated by impact approach, regional focus, liquidity and impact reporting • May have investor restrictions
INVESTMENT EXAMPLES	• Mutual fund that excludes companies from buy universe (e.g., tobacco, firearms, coal mining companies)	• Separately Managed Account (SMA) incorporating analysis of ESG performance into stock selection process	• Exchange-traded fund (ETF) tracking index of renewable energy companies	• A private equity fund focused on emerging consumers or project level renewable energy investment
	PUBLIC MARKETS	PUBLIC MARKETS	PUBLIC MARKETS	PRIVATE MARKETS

Source: Morgan Stanley Wealth Management GIC

Investing With Impact Actionable Themes

Strategies, portfolios, tools and resources can be used individually or in concert to create portfolios designed to meet a variety of impact goals — either in select allocations or across the entire portfolio. Current thematic examples include:

Faith-Based Investing

Align investment portfolio with principles in accordance with specific religious values

Fossil Fuel Aware Investing

Support the transition to a lower carbon economy by considering fossil fuel exposures in portfolios

Mission-Aligned Investing

Activate investment portfolio to amplify the impact of personal or organizational mission

Source: Morgan Stanley Wealh Management GIC

A Tailored Approach to Implementation

VALUES ALIGNMENT	ESG INTEGRATION	THEMATIC EXPOSURE	IMPACT INVESTING

Investing with Impact Portfolio Solutions	**Firm Discretionary Portfolios –** Balanced and Equity multi-asset class portfolios available on Select UMA utilize GIC Asset Allocation and Investing with Impact third-party managers covered by Global Investment Manager Analysis (GIMA) **Sustainable and Impact Portfolio –** Equity portfolio combines fundamental investment process of the Equity Model Portfolio Solutions team with a proprietary ESG score focused on a company's policy and disclosure across several criteria **Custom Portfolios –** Across platforms, tailored to match specific financial and impact goals
Investing with Impact Products	**125+ Strategies –** Mutual Funds, ETFs, SMA strategies across Investing with Impact approaches including public equity & fixed income; 50+ strategies covered by Global Investment Manager Analysis (GIMA) **Capital Markets –** Access to Green Bonds, IPOs, structured investments offerings incorporating positive impact **Morgan Stanley Global Impact Funding Trust –** Multiply the impact of your charitable giving through the Donor Advised Fund **Alternative Investment Opportunities** (for qualified investors)
Investing with Impact Tools & Resources	**Custom Restriction Screening –** Accounts can be screened across asset classes for 29 different issue areas **Proxy Voting –** Connect with external resources on shareholder engagement issues **Research & Thought Leadership –** Ideas and insights from Morgan Stanley Sustainable + Responsible Research and Morgan Stanley Institute for Sustainable Investing **Impact Reporting –** Track impact metrics of alternative impact funds

Source: Morgan Stanley Wealth Management GIC. Select UMA is an investment advisory program that combines Morgan Stanley Wealth Management's intellectual capital in asset allocation advice, investment manager analysis and portfolio construction to deliver a suite of model portfolios – all within a single investment account. The Select UMA Investing With Impact Portfolios are firm discretionary model portfolio options available within the firm's Select UMA advisory program.

Debunking Common Myths About Investing with Impact

Commonly Held Myth	Investment Reality
Investing with Impact means sacrificing returns	Analysis of Morningstar data tracking self-described sustainable equity mutual funds vs. the universe of traditional funds, found that sustainable funds often performed better and had lower volatility than their category median.[1]
Investing with Impact is a niche area	Sustainably invested assets now account for more than one out of every six dollars under professional management in the US.[2]
Investing with Impact investment products are limited	In 2014, 925 distinct funds, representing $4.31 trillion in assets incorporated ESG criteria, more than four times the $1.01 trillion tracked in 2012.[2]

Source: (1) Morningstar, Morgan Stanley Institute for Sustainable Investing ' Sustainable Reality,' February 2015. (2) US SIF Report on the Sustainable and Responsible Investing Trends in the United States, 2014. Morgan Stanley Wealth Management GIC

Bottom Line: Investing with Impact Is Gaining Momentum

- 65% of individual investors expect sustainable investing to become more prevalent in the next five years. [1]
- By 2050, the business opportunities for sustainability-focused companies are expected to be between $3 trillion and $10 trillion annually, or up to 4.5% of global GDP. [2]
- Companies are improving their competitive position and returns by adjusting their business strategies to address long-term global themes/mega-trends, including:
  - Climate Change, Water Scarcity, Waste Management, Food Availability, Health & Wellness, Improving Lives and Ageing Populations [3]
- Morgan Stanley is well-positioned to help deliver impact via customized solutions based on clients' financial and impact goals.

Source: (1) Morgan Stanley Institute for Sustainable Investing ' Sustainable Signals,' February 2015. (2) Vision 2050: The New Agenda for Business, World Business Council for Sustainable Development, 2010. (3) Morgan Stanley & Co. Research; Morgan Stanley Wealth Management GIC

Asset Allocation Models & Insurance Products Disclosures

GLOBAL INVESTMENT COMMITTEE (GIC) ASSET ALLOCATION MODELS

The Asset Allocation Models are created by Morgan Stanley Wealth Management's GIC.

CLIENTS TO CONSIDER THEIR OWN INVESTMENT NEEDS

The GIC Asset Allocation Models are formulated based on general client characteristics such as investable assets and risk tolerance. This report is not intended to be a client-specific suitability analysis or recommendation, or offer to participate in any investment. Therefore, do not use this report as the sole basis for investment decisions.

Clients should consider all relevant information, including their existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. Such a suitability determination may lead to asset allocation(s) results that are materially different from the asset allocation shown in this report. Clients should talk to their Financial Advisor about what would be a suitable asset allocation for them.

HYPOTHETICAL MODEL PERFORMANCE (GROSS)

Hypothetical model performance results do not reflect the investment or performance of an actual portfolio following a GIC Strategy, but simply reflect actual historical performance of selected indices on a real-time basis over the specified period of time representing the GIC's strategic and tactical allocations as of the date of this report. The past performance shown here is simulated performance based on benchmark indices, not investment results from an actual portfolio or actual trading. There can be large differences between hypothetical and actual performance results achieved by a particular asset allocation or trading strategy. Hypothetical performance results do not represent actual trading and are generally designed with the benefit of hindsight.

Actual performance results of accounts vary due to, for example, market factors (such as liquidity) and client-specific factors (such as investment vehicle selection, timing of contributions and withdrawals, restrictions and rebalancing schedules). Clients would not necessarily have obtained the performance results shown here if they had invested in accordance with any GIC Asset Allocation Model for the periods indicated.

Despite the limitations of hypothetical performance, these hypothetical performance results allow clients and Financial Advisors to obtain a sense of the risk/return trade-off of different asset allocation constructs. The hypothetical performance results in this report are calculated using the returns of benchmark indices for the asset classes, and not the returns of securities, fund or other investment products.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment is not the same as the risk of loss in a broad market index. Therefore, the historical returns of an index will not be the same as the historical returns of a particular investment a client selects.

Models may contain allocations to Hedge Funds, Private Equity and Private Real Estate. The benchmark indices for these asset classes are not issued on a daily basis. When calculating model performance on a day for which no benchmark index data is issued, we have assumed straight line growth between the index levels issued before and after that date.

Fees reduce the performance of actual accounts None of the fees or other expenses (e.g. commissions, mark-ups, mark-downs, fees) associated with actual trading or accounts are reflected in the GIC Asset Allocation Models. The GIC Asset Allocation Models and any model performance included in this presentation are intended as educational materials. Were a client to use these models in connection with investing, any investment decisions made would be subject to transaction and other costs which, when compounded over a period of years, would decrease returns. Information regarding Morgan Stanley's standard advisory fees is available in the Form ADV Part 2, which is available at www.morganstanley.com/adv. The following hypothetical illustrates the compound effect fees have on investment returns: For example, if a portfolio's annual rate of return is 15% for 5 years and the account pays 50 basis points in fees per annum, the gross cumulative five-year return would be 101.1% and the five-year return net of fees would be 96.8%. Fees and/or expenses would apply to clients who invest in investments in an account based on these asset allocations, and would reduce clients' returns. The impact of fees and/or expenses can be material.

INSURANCE PRODUCTS AND ETF DISCLOSURES

Morgan Stanley Smith Barney LLC offers **insurance products** in conjunction with its licensed insurance agency affiliates.

An investment in an **exchange-traded fund** involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock and bond prices.

Variable annuities, mutual funds and ETFs are sold by prospectus only. The prospectus contains the investment objectives, risks, fees, charges and expenses, and other information regarding the variable annuity contract and the underlying investments, or the ETF, which should be considered carefully before investing. Prospectuses for both the variable annuity contract and the underlying investments, or the ETF, are available from your Financial Advisor. Please read the prospectus carefully before you invest.

Variable annuities are long-term investments designed for retirement purposes and may be subject to market fluctuations, investment risk, and possible loss of principal. All guarantees, including optional benefits, are based on the financial strength and claims-paying ability of the issuing insurance company and do not apply to the underlying investment options.

Optional riders may not be able to be purchased in combination and are available at an additional cost. Some optional riders must be elected at time of purchase. Optional riders may be subject to specific limitations, restrictions, holding periods, costs, and expenses as specified by the insurance company in the annuity contract.

If you are investing in a **variable annuity** through a tax-advantaged retirement plan such as an IRA, you will get no additional tax advantage from the variable annuity. Under these circumstances, you should only consider buying a variable annuity because of its other features, such as lifetime income payments and death benefits protection.

Taxable distributions (and certain deemed distributions) are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal income tax penalty. Early withdrawals will reduce the death benefit and cash surrender value.

Asset Class Risk Considerations

For index definitions to the indices referenced in this report please visit the following: http://www.morganstanleyfa.com/public/projectfiles/id.pdf

Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment.

Investing in foreign markets entails risks not typically associated with domestic markets, such as currency fluctuations and controls, restrictions on foreign investments, less governmental supervision and regulation, and the potential for political instability. These risks may be magnified in countries with **emerging markets and frontier markets**, since these countries may have relatively unstable governments and less established markets and economies.

Investing in small- to medium-sized companies entails special risks, such as limited product lines, markets and financial resources, and greater volatility than securities of larger, more established companies.

The value of **fixed income securities** will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer.

High yield bonds (bonds rated below investment grade) may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk, price volatility, and limited liquidity in the secondary market. High yield bonds should comprise only a limited portion of a balanced portfolio.

Interest on **municipal bonds** is generally exempt from federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one's state of residence and, if applicable, local tax-exemption applies if securities are issued within one's city of residence.

Treasury Inflation Protection Securities' (TIPS) coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation.

Ultrashort-term fixed income asset class is comprised of fixed income securities with high quality, very short maturities. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

Alternative investments may be either traditional alternative investment vehicles, such as hedge funds, fund of hedge funds, private equity, private real estate and managed futures or, non-traditional products such as mutual funds and exchange-traded funds that also seek alternative-like exposure but have significant differences from traditional alternative investments. The risks of traditional alternative investments may include: can be highly illiquid, speculative and not suitable for all investors, loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices, volatility of returns, restrictions on transferring interests in a 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 open-end mutual funds, and risks associated with the operations, personnel and processes of the manager. Non-traditional alternative strategy products 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. **Master Limited Partnerships (MLPs)** Individual MLPs are publicly traded partnerships that have unique risks related to their structure. These include, but are not limited to, their reliance on the capital markets to fund growth, adverse ruling on the current tax treatment of distributions (typically mostly tax deferred), and commodity volume risk. The potential tax benefits from investing in MLPs depend on their being treated as partnerships for federal income tax purposes and, if the MLP is deemed to be a corporation, then its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distribution to the fund which could result in a reduction of the fund's value. MLPs carry interest rate risk and may underperform in a rising interest rate environment. **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. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention. **Physical precious metals** are non-regulated products. Precious metals are speculative investments, which may experience short-term and long term price volatility. The value of precious metals investments may fluctuate and may appreciate or decline, depending on market conditions. Unlike bonds and stocks, precious metals do not make interest or dividend payments. Therefore, precious metals may not be suitable for investors who require current income. Precious metals are commodities that should be safely stored, which may impose additional costs on the investor. **REITs** investing risks are similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.

Before engaging in the purchase or sale of **options,** potential clients should understand the nature of and extent of their rights and obligations and be aware of the risks involved, including, without limitation, the risks pertaining to the business and financial condition of the issuer of the underlying security or instrument. Options investing, like other forms of investing, involves tax considerations, transaction costs and margin requirements that can significantly affect the profit and loss of buying and writing options. The transaction costs of options investing consist primarily of commissions (which are imposed in opening, closing, exercise and assignment transactions), but may also include margin and interest costs in particular transactions. Transaction costs are especially significant in options strategies calling for multiple purchases and sales of options, such as multiple leg strategies, including spreads, straddles and collars. If you are considering options as part of your investment plan, your Morgan Stanley Financial Advisor or Private Wealth Advisor is required to provide you with the "Characteristics and Risks of Standardized Options" booklet from the Options Clearing Corporation. Clients should not enter into options transactions until they have read and understood the Disclosure Document, as options are not suitable for everyone, and discuss transaction costs with their Financial Advisor or Investment Representative. Please ask your Financial Advisor, Private Wealth Advisor for a copy of the Characteristics and Risks of Standardized Options booklet. A copy of the ODD is also available online at: http://theocc.com/publications/risks/riskchap1.jsp.

Risks of **private real estate** include: illiquidity; a long-term investment horizon with a limited or nonexistent secondary market; lack of transparency; volatility (risk of loss); and leverage.

Principal is returned on a monthly basis over the life of a **mortgage-backed security.** Principal prepayment can significantly affect the monthly income stream and the maturity of any type of MBS, including standard MBS, CMOs and Lottery Bonds.

Asset Class Risk Considerations (cont'd)

Asset-backed securities generally decrease in value as a result of interest rate increases, but may benefit less than other fixed-income securities from declining interest rates, principally because of prepayments.

Floating-rate securities The initial interest rate on a floating-rate 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 the floating security's underlying reference rate. The reference rate could be an index or an interest rate. However, there can be no assurance that the reference rate will increase. Some floating-rate securities may be subject to call risk.

Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

Credit ratings are subject to change.

Companies paying **dividends** can reduce or cut payouts at any time.

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

Nondiversification: For a portfolio that holds a concentrated or limited number of securities, a decline in the value of these investments would cause the portfolio's overall value to decline to a greater degree than a less concentrated portfolio. Portfolios that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuation than those that diversify among a broad range of sectors.

The **indices** are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

The **indices selected by Morgan Stanley Wealth Management** to measure performance are representative of broad asset classes. Morgan Stanley Wealth Management retains the right to change representative indices at any time.

Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies.

Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

Rebalancing does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Investors should consult with their tax advisor before implementing such a strategy.

Any type of **continuous or periodic investment plan** does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low price levels.

Duration, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates.

Besides the general risk of holding securities that may decline in value, **closed-end funds** may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance, and potential leverage. Some funds also invest in foreign securities, which may involve currency risk.

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