Wealth Management Perspectives
The GIC’s Alternative Assets / Categories

- **Real Assets**: Commodities ex Precious Metals, Precious Metals/Gold, MLPs, Global REITs
- **Total Return Assets**: Equity Market Neutral, Relative Value Strategies including Credit Long/Short
- **Equity Hedge Assets**: Global Macro, Managed Futures, Hedge Fund of Funds, Multi-Strategy Alts
- **Equity Return Assets**: Equity Long/Short, Event Driven, Structured Investments
- **Private Investments**: Private Equity, Private Direct Real Estate, Early Stage Venture, Distressed Lending, Direct Lending, Impact Investing, Timberland, Water, Collectibles, etc.

Source: Morgan Stanley Wealth Management GIC.
The GIC’s Framework Employs an Outcomes-Oriented Approach to Using Alternative Investments

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<th>Alternatives’ Portfolio Main Purpose</th>
<th>Alternative Assets</th>
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<td>60%/40% Equities /Bonds</td>
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Source: Morgan Stanley Wealth Management GIC.
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Investors Should Consider Allocating Across the Liquidity Spectrum


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Investment Returns Have Typically Increased With the Degree of Illiquidity

The “illiquidity premium” associated with private investments is expected to compensate investors for giving up access to their capital. It is defined as the extra yield investors expect to earn for giving up control to liquidate their capital for a certain period of time. The illiquidity premium can be a potential benefit to investors in private equity.

**Compound Annual Returns\(^1\) Across the Hold/Trade Settlement Spectrum**

Data from January 1996 – December 2015

Adding Alternatives Exposure to a Portfolio May Reduce Volatility and Potentially Increase Returns

Risk and Return Trade-Off With and Without Alternatives
Data as of January 1, 1990 to September 28, 2018

Over the last 25 years, having an allocation to Alternatives has enhanced returns and reduced risk for investors.

Source: Bloomberg, Morgan Stanley Wealth Management GIC, Thomson ONE. Private equity index data sourced from Thomson ONE’s Cambridge Associates benchmarking database and is represented by Buyout, Distressed, Growth Equity, Mezzanine, Private Equity Energy, Upstream Energy & Royalties and Venture Capital. Private Equity data subject to 5-month lag; therefore, all asset classes are depicted as of 4Q 2016 for consistency. Private equity returns are net to limited partners. Stocks are represented by the S&P 500 Total Return Index. Bonds are represented by Barclays US Aggregate. Alternatives Investment are composed of 16.6% Equity Hedge (HFRI Equity Hedge Index), 16.6% Equity Neutral (HFRI Equity Market Neutral Index), 33% Private Equity, and 33% Real Estate (National Council of Real Estate Investment Fiduciaries Property Index –NCREIF). Alternatives investments are not suitable for all investors.

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Institutions & College Endowments Are Heavily Invested in Alternatives

Institutional Portfolio Allocations
December 31, 2016

Strategic Endowment Asset Allocations
As of Q3 2016


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Alternatives Have Become an Important Component in Reaching Return Goals

Hypothetical Portfolio Required to Generate at Least 6.5% Annualized Returns Over Each Period
For Illustrative Purposes Only
As of December 30, 2016

Source: Bloomberg, Morgan Stanley Wealth Management Investment Resources. Bonds are represented by the Barclays Global Aggregate Total Return Index hedged to USD, US Large Cap by the Russell 1000 Total Return Index, US Small Cap by the Russell 2000 Total Return Index, Non-US Equity by MSCI All Country World ex US Index, Real Estate by FTSE EPRA NAREIT Global Total Return Index, and Private Equity by Cambridge Associates pooled returns for Buyout, Growth Equity, Private Equity Energy, Upstream Royalties, and Venture Capital. The hypothetical portfolio shown does not reflect the investment or performance of any actual portfolio. From 1990-1995 a 100% bond portfolio generated a 9% gross annualized return. Had the results reflected brokerage commissions, the performance would have been lower. The 1990-1995 annualized portfolio return is a hypothetical calculation based on the annualized returns of the indices for the time periods specified. Not all indices are investable. For more information about the risks to hypothetical performance, please see the Risk Considerations at the end of this material.

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Traditional Portfolios May Benefit from Hedge Fund Allocations

Hypothetical Portfolio Performance Last 25 Years
Monthly Data as of September 30, 1991 – August 31, 2018

Source: Morgan Stanley Wealth Management Investment Resources, Bloomberg. Hedge funds represented by the HFRI Fund Weighted Composite Index, net of all fees; U.S. stocks represented by the S&P 500 Total Return Index, gross of dividends; bonds represented by the Barclays U.S. Aggregate Bond Index. Index results are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns reflect reinvestment of any dividends and capital gains. Hypothetical performance should not be considered a guarantee of future performance or a guarantee of achieving overall financial objectives. Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets. For more information about the risks to hypothetical performance please refer to the Risk Considerations section at the end of this material.

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Alternatives Risk Return Comparison

Risk Return Comparison
January 2000 to September 2018*

- 12%
- 10%
- 8%
- 6%
- 4%
- 2%
- 0%

- Private Equity
- Private Real Estate
- Distressed Credit
- Relative Value
- Convertible Arbitrage
- Equity Hedge
- Global Macro
- Merger Arbitrage
- Equity Market Neutral
- Commodities

Annualized Compound Return

Annualized Standard Deviation

Source: Bloomberg, Morgan Stanley Wealth Management GIC. *All data from January 1, 2000 through September 28, 2018, except for private equity, which is from March 31, 2000 through March 31, 2018, due to data availability. Standard deviation (volatility) is a measure of the dispersion of a set of data from its mean. Indices used for this analysis include: S&P 500 for US Equity, MSCI EAFE (net) for Global Equity, Barclays Aggregate Bond Index for US Bonds, National Council of Real Estate Investment Fiduciaries Property Index (NCREIF) for Real Estate, BCOM Index for Commodities, HFRI Equity Market Neutral Index for Equity Market Neutral, HFRI Event Driven (Total) Index for Event Driven, HFRI Distressed Index for Distressed, HFRI Merger Arbitrage Index for Merger Arbitrage, HFRI Macro (total) Index for Macro, HFRI Relative Value (Total) Index for Relative Value, HFRI Equity Hedge (Total) Index for Equity Hedge, HFRI Relative Value Fixed Income-Corporate Index for Fixed Income, HFRI Fixed Income Convertible Arbitrage Index for Convertible Arbitrage. Private equity index data sourced from Thomson ONE’s Cambridge Associates benchmarking database and is represented by Buyout, Distressed, Growth Equity, Mezzanine, Private Equity Energy Upstream Energy & Royalties and Venture Capital For illustrative purposes only.

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Historical Volatility

Equity Volatility\(^1\) Vs. Rate Volatility\(^2\)

Daily Data as of October 2, 2018

Source: FactSet, Bloomberg, BofA, Federal Reserve, Morgan Stanley Wealth Management GIC. (1) Equity volatility represented by the VIX Index. (2) Rate volatility represented by the Merrill Lynch Option Volatility Estimate (MOVE) Index.

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Quantitative Easing Reduced Volatility and Led to Extraordinary Risk-Adjusted Returns for Stocks and Bonds

Sharpe Ratio of a 60% S&P 500 / 40% Bloomberg Barclays US Aggregate Portfolio
Rolling 60 Month Sharpe Ratio, Monthly Data as of September 28, 2018

Source: Bloomberg, Ibbotson Associates Morgan Stanley Wealth Management GIC. Calculated by Morgan Stanley Wealth Management using data provided by Morningstar. © 2018 Morningstar, Inc. All rights reserved. Used with permission. This information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. 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. For illustrative purposes only.

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Sharpe Ratios
As September 28, 2018

Source: FactSet, Bloomberg, Morgan Stanley Wealth Management GIC. (1) Ex precious metals. 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. US stocks represented by the S&P 500, US bonds represented by the Barclays US Aggregate, International bonds represented by the Barclays Global Aggregate ex US (hedged), Developed market stocks represented by the MSCI AC World ex US Index, Emerging market stocks represented by the MSCI Emerging Markets IMI, Precious metals represented by the DJ/UBS Precious Metals Index, and Commodities represented by the DJ/UBS Commodity Index ex Precious Metals.

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Alternative Investments May Outperform in Challenging Fixed Income Environments

Rising Rate Regimes Since 1990
Daily Data As of October 3, 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>US 10-Yr Treasury Rate</th>
<th>Alts</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-3.9%</td>
<td>2.0%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2</td>
<td>-0.3%</td>
<td>32.3%</td>
<td>32.6%</td>
</tr>
<tr>
<td>3</td>
<td>8.9%</td>
<td>32.0%</td>
<td>23.1%</td>
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<tr>
<td>4</td>
<td>9.1%</td>
<td>-8.5%</td>
<td>-17.6%</td>
</tr>
<tr>
<td>5</td>
<td>-0.2%</td>
<td>11.8%</td>
<td>11.9%</td>
</tr>
</tbody>
</table>

Average alt outperformance in rising rate environments: 11.2%

Source: Bloomberg, Goldman Sachs Asset Management, Morgan Stanley Wealth Management GIMA. Alternatives are represented by the HFRI FOF Index.

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Alternative Investments May Outperform in Challenging Equity Environments

Equity Bear Markets Since 1990
Daily Data  As of October 3, 2018

<table>
<thead>
<tr>
<th>RETURNS IN EQUITY BEAR MARKETS</th>
<th>S&amp;P 500</th>
<th>Alts</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>-19%</td>
<td>6%</td>
<td>25%</td>
</tr>
<tr>
<td>b</td>
<td>-19%</td>
<td>-7%</td>
<td>12%</td>
</tr>
<tr>
<td>c</td>
<td>-47%</td>
<td>-1%</td>
<td>47%</td>
</tr>
<tr>
<td>d</td>
<td>-55%</td>
<td>-22%</td>
<td>33%</td>
</tr>
<tr>
<td>e</td>
<td>-19%</td>
<td>-6%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Average alt outperformance in equity bear markets 26%

Source: Bloomberg, Goldman Sachs Asset Management, Morgan Stanley Wealth Management GIMA. Alternatives are represented by the HFRI FOF Index.

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Challenging Rate and Equity Environments Are Frequent

Since 1990 the US has been in a challenging fixed income or equity environment 36% of the time

Rising Rate Regimes and Equity Bear Markets Since 1990

Daily Data As of October 3, 2018

Source: Bloomberg, Goldman Sachs Asset Management, Morgan Stanley Wealth Management Investment Resources

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The type of mutual funds and ETFs discussed in this presentation utilizes nontraditional or complex investment strategies and/or derivatives. Examples of these types of funds include those that utilize one or more of the below noted investment strategies or categories or which seek exposure to the following markets: (1) commodities (e.g., agricultural, energy and metals), currency, precious metals; (2) managed futures; (3) leveraged, inverse or inverse leveraged; (4) bear market, hedging, long-short equity, market neutral; (5) real estate; (6) volatility (seeking exposure to the CBOE VIX Index). Investors should keep in mind that while mutual funds and ETFs may, at times, utilize nontraditional investment options and strategies, they should not be equated with unregistered privately offered
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Nontraditional investment options and strategies are often employed by a portfolio manager to further a fund’s investment objective and to help offset market risks. However, these features may be complex, making it more difficult to understand the fund’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 to increased volatility and unanticipated risks particularly when used in complex combinations and/or accompanied by the use of borrowing or “leverage.”

**KEY ASSET CLASS CONSIDERATIONS AND OTHER RISKS**

Investing in the markets entails the risk of market volatility. The value of all types of investments, including stocks, mutual funds, exchange-traded funds (“ETFs”), closed-end funds, and unit investment trusts, may increase or decrease over varying time periods. To the extent the investments depicted herein represent international securities, you should be aware that there may be additional risks associated with international investing, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards. These risks may be magnified in emerging markets and frontier markets. Small- and mid-capitalization companies may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of small- and mid-capitalization companies may not trade as readily as, and be subject to higher volatility than, those 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 are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issuers. In the case of municipal bonds, income is generally exempt from federal income taxes. Some income may be subject to state and local taxes and to the federal alternative minimum tax. Capital gains, if any, are subject to tax. 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. There is no guarantee that investors will receive par if TIPS are sold prior to maturity. The returns on a portfolio consisting primarily of environmental, social, and governance-aware investments (“ESG”) may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because ESG criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. The companies identified and investment examples are for illustrative purposes only and should not be deemed a recommendation to purchase, hold or sell any securities or investment products. They are intended to demonstrate the approaches taken by managers who focus on ESG criteria in their investment strategy. There can be no guarantee that a client’s account will be managed as described herein. Options and margin trading involve substantial risk and are not suitable for all investors. Besides the general investment risk of holding securities that may decline in value and the possible loss of principal invested, closed-end funds may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance and potential leverage. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. NAV is total assets less total liabilities divided by the number of shares outstanding. At the time an investor purchases shares of a closed-end fund, shares may have a market price that is above or below NAV. 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.

Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are suitable only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing. Certain of these risks may include but are not limited to: Loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; Lack of liquidity in that there may be no secondary market for a fund; 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 mutual funds; and Risks associated with the operations, personnel, and processes of the manager. As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication, and other activities. In the ordinary course of its business, Morgan Stanley Wealth Management therefore engages in activities where Morgan Stanley Wealth Management’s interests may conflict with the interests of its clients, including the private investment funds it manages. Morgan Stanley Wealth Management can give no assurance that conflicts of interest will be resolved in favor of its clients or any such fund. All expressions of opinion are subject to change without...
Self-selection bias results when certain manager returns are not included in the index returns and may result in performance being skewed up or down. Because hedge funds are private placements, that are not present in traditional indexes. Some of these biases inflate index performance, while others may skew performance negatively. However, many studies indicate that overall hedge fund various market segments they represent and offer complete transparency as to membership and construction methodology. As such, some believe that hedge fund index returns have certain biases that might significantly affect the performance shown. The HFRI indices are based on information self-reported by hedge fund managers that decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways. Composite index results are shown for illustrative purposes and do not represent the performance of a specific investment. Individual funds have specific tax risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice. Interests in alternative investment products are offered pursuant to the terms of the applicable offering memorandum, are distributed by Morgan Stanley Smith Barney LLC and certain of its affiliates, and (2) are not FDIC-insured, (2) are not deposits or other obligations of Morgan Stanley or any of its affiliates, (3) are not guaranteed by Morgan Stanley and its affiliates, and (4) involve investment risks, including possible loss of principal. Morgan Stanley Smith Barney LLC is a registered broker-dealer, not a bank. This material is not to be reproduced or distributed to any other persons (other than professional advisors of the investors or prospective investors, as applicable, receiving this material) and is intended solely for the use of the persons to whom it has been delivered. This material is not for distribution to the general public. Past performance is no guarantee of future results. Actual results may vary. SIPC insurance does not apply to precious metals, other commodities, or traditional alternative investments. Interests in alternative investment products are offered pursuant to the terms of the applicable offering memorandum, are distributed by Morgan Stanley Smith Barney LLC and certain of its affiliates, and (2) are not FDIC-insured, (2) are not deposits or other obligations of Morgan Stanley or any of its affiliates, (3) are not guaranteed by Morgan Stanley and its affiliates, and (4) involve investment risks, including possible loss of principal. Morgan Stanley Smith Barney LLC is a registered broker-dealer, not a bank. In Consulting Group’s advisory programs, alternative investments are limited to U.S.-registered mutual funds, separate account strategies and exchange-traded funds (ETFs) that seek to pursue alternative investment strategies or returns utilizing publicly traded securities. Investment products in this category 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 investments are not suitable for all investors. As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication, and other activities. In the ordinary course of its business, Morgan Stanley Wealth Management therefore engages in activities where Morgan Stanley Wealth Management’s interests may conflict with the interests of its clients, including the private investment funds it manages. Morgan Stanley Wealth Management can give no assurance that conflicts of interest will be resolved in favor of its clients or any such fund. Alternative investments involve complex tax structures, tax inefficient investing, and delays in distributing important tax information. Individual funds have specific risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice.

While the HFRI indices are frequently used, they have limitations (some of which are typical of other widely used indices). These limitations include survivorship bias (the returns of the indices may not be representative of all the hedge funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and the index may omit funds, the inclusion of which might significantly affect the performance shown. The HFRI indices are based on information self-reported by hedge fund managers that decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways.

It should be noted that the majority of hedge fund indexes are comprised of hedge fund manager returns. This is in contrast to traditional indexes, which are comprised of individual securities in the various market segments they represent and offer complete transparency as to membership and construction methodology. As such, some believe that hedge fund index returns have certain biases that are not present in traditional indexes. Some of these biases inflate index performance, while others may skew performance negatively. However, many studies indicate that overall hedge fund index performance has been biased to the upside. Some studies suggest performance has been inflated by up to 260 basis points or more annually depending on the types of biases included and the time period studied. Therefore it is not to be taken as a forecast of the performance of hedge funds or hedge fund managers.
returns for funds with strong returns and opt out of reporting returns for weak performers. Other hedge funds that close may decide to stop reporting in order to retain secrecy, which may cause a downward bias in returns.

Survivorship bias results when certain constituents are removed from an index. This often results from the closure of funds due to poor performance, “blow ups,” or other such events. As such, this bias typically results in performance being skewed higher. As noted, hedge fund index performance biases can result in positive or negative skew. However, it would appear that the skew is more often positive. While it is difficult to quantify the effects precisely, investors should be aware that idiosyncratic factors may be causing hedge fund index returns an artificial “lift” or upwards bias.

Hedge Funds of Funds and many funds of funds are private investment vehicles restricted to certain qualified private and institutional investors. They are often speculative and include a high degree of risk. Investors can lose all or a substantial amount of their investment. They may be highly illiquid, can engage in leverage and other speculative practices that may increase volatility and the risk of loss, and may be subject to large investment minimums and initial lockups. They involve complex tax structures, tax-inefficient investing and delays in distributing important tax information. Categorically, hedge funds and funds of funds have higher fees and expenses than traditional investments, and such fees and expenses can lower the returns achieved by investors. Funds of funds have an additional layer of fees over and above hedge fund fees that will offset returns. 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. An investment in a target date portfolio is subject to the risks attendant to the underlying funds in which it invests, in these portfolios the funds are the Consulting Group Capital Market funds. A target date portfolio is geared to investors who will retire and/or require income at an approximate year. The portfolio is managed to meet the investor’s goals by the pre-established year or “target date.” A target date portfolio will transition its invested assets from a more aggressive portfolio to a more conservative portfolio as the target date draws closer. An investment in the target date portfolio is not guaranteed at any time, including, before or after the target date is reached. 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. Managed futures investments do not replace equities or bonds but rather may act as a complement in a well diversified portfolio. Managed Futures are complex and not appropriate for all investors. Rebalancing does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets. Past performance is no guarantee of future results. Actual results may vary.

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Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustration purposes only and do not show the performance of any specific investment. Reference to an index does not imply that the portfolio will achieve return, volatility or other results similar to the index. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error target, all of which are subject to change over time.

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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.

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.

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

Master Limited Partnerships (MLPs) are limited partnerships or limited liability companies that are taxed as partnerships and whose interests (limited partnership units or limited liability company units) are traded on securities exchanges like shares of common stock. Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. 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
Yields on other fixed-income securities can be affected by declining interest rates, principally because of prepayments. MLPs (master limited partnerships) carry interest rate risk and may underperform in a rising interest rate environment. MLP funds accrue deferred income taxes for future tax liabilities associated with the portion of MLP distributions considered to be a tax-deferred return of capital and for any net operating gains as well as capital appreciation of its investments; this deferred tax liability is reflected in the daily NAV, and as a result, the MLP fund’s after-tax performance could differ significantly from the underlying assets even if the pre-tax performance is closely tracked.

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 (real estate investment trusts) carry interest rate changes and market recessions. 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-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.

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. 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. The majority of $25 and $1,000 par preferred securities are “callable” meaning that the issuer may retire the securities at specific prices and dates prior to maturity. Interest/dividend payments on certain preferred issues may be deferred by the issuer for periods of up to 5 to 10 years, depending on the particular issue. The investor would still have income tax liability even though payments would not have been received. Price quoted is per $25 or $1,000 share, unless otherwise specified. Current yield is calculated by multiplying the coupon by par value divided by the market price. 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. The market value of convertible bonds and the underlying common stock(s) will fluctuate and after purchase may be worth more or less than original cost. If sold prior to maturity, investors may receive more or less than their original purchase price or maturity value, depending on market conditions. Callable bonds may be redeemed by the issuer prior to maturity. Additional call features may exist that could affect yield. Some $25 or $1,000 par preferred securities are QDI (Qualified Dividend Income) eligible. Information on QDI eligibility is obtained from third party sources. The dividend income on QDI eligible preferreds qualifies for a reduced tax rate. Many traditional ‘dividend paying’ perpetual preferred securities (traditional preferreds with no maturity date) are QDI eligible. In order to qualify for the preferential tax treatment all qualifying preferred securities must be held by investors for a minimum period – 91 days during a 180 day window period, beginning 90 days before the ex-dividend date.

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

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. 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.
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.

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