

# Form ADV Wrap Fee Program Brochure

## Morgan Stanley Smith Barney LLC

Core Portfolios<sup>®</sup> Program

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**This Wrap Fee Program Brochure provides information about the qualifications and business practices of Morgan Stanley Smith Barney LLC (“MSWM”). If you have any questions about the contents of this Brochure, please contact our Core Portfolios Support Team at 866-484-3658. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about MSWM also is available on the SEC’s website at *www.adviserinfo.sec.gov*. Registration with the SEC does not imply a certain level of skill or training.**

## **Item 2: Material Changes**

This section identifies and describes material changes to the ADV Brochure since the version of this Brochure dated January 3, 2023. For more details on any particular matter, please see the item in this ADV Brochure referred to in the summary below.

### **Fractional Shares**

Disclosures have been added in Item 4.A to describe the fractional shares feature which your account may be eligible for.

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## Item 4: Services, Fees, and Compensation

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

MSWM offers clients many different advisory programs. You may obtain ADV Brochures for other MSWM investment advisory programs at [morganstanley.com/ADV](http://morganstanley.com/ADV).

All client assets in the Core Portfolios program are custodied at MSWM (except for “sweep” assets custodied at the Sweep Banks and, if applicable, the Sweep Fund (as defined in Item 4.C below) pursuant to the Bank Deposit Program). *Please see Item 4.C (Services, Fees and Compensation – Additional Fees – Cash Sweeps – Bank Deposit Program) for more information.*

**MSWM is a fiduciary to you.** In serving as investment adviser to our clients (“client,” “you,” and “your”) in this program, MSWM is a fiduciary to you. We are registered under the Investment Advisers Act of 1940 (the “Advisers Act”), which places a fiduciary obligation on us in terms of the way that we provide services to you.

In addition, we reasonably expect to provide services as a “fiduciary” (as that term is defined in Section 3(21)(A) of the Employee Retirement Income Security Act of 1974 (“ERISA”) and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”)), with respect to individual retirement accounts (“IRAs” or “Retirement Accounts”), as described in Section 4975 of the Code.

As a fiduciary, we ensure that your best interests come first. We endeavor to provide you with full disclosure of all material facts relating to our investment advisory relationship with you. Our advisory programs are designed to avoid conflicts of interest. In situations where the appearance of, or the potential for, such a conflict is unavoidable, we will clearly disclose the details of this to you.

A key feature of this program is that we will provide you with objective investment advice. Investment choices for your account are the subject of an intensive due diligence process by our experienced professionals. Our recommendations of such products are made only after we have thoroughly reviewed your investment goals and risk tolerance and concluded that the recommended investment products are appropriate for you. We will provide ongoing investment advice to you and monitor your investments to ensure that they remain consistent with your objectives and risk tolerance.

We will always attempt to obtain the most favorable terms for any transaction that we make in your accounts. This practice is often referred to in the industry as “best execution.”

We will supervise our professionals to ensure that they are providing the services within appropriate guidelines, and we will monitor our employees to ensure that they meet prevailing ethical standards.

As custodian for your account, we will safeguard your assets from access by unauthorized persons, and we will protect the privacy of your personal and financial information.

We will clearly disclose information about the fees you pay and that we receive.

Details about issues such as those described above are found throughout this ADV Brochure.

### A. General Description of the Core Portfolios Program and Services

The Core Portfolios program is expected to be available to certain clients sometime in the second quarter of 2023 and will be more broadly available in the third quarter of 2023.

The Core Portfolios program (“Program”) offers you the ability to invest in one or more of our investment model strategies composed of a diversified portfolio of exchange traded funds (“ETFs”) managed by a professional Investment Management Team employed by MSWM (each an “Investment Strategy”). MSWM does not provide advice as to whether a client or prospective client should open an account in the Program.

In order to open an account in the Program, we will ask you for certain information in order to determine your financial needs and objectives, including but not limited to your risk tolerance, investment goals, liquidity needs, time horizon, investment restrictions, risk tolerance, investment experience, tax sensitivity, and the source of funds to be invested (“Investor Profile”).

We will then present you with an investment proposal in which we will recommend an Investment Strategy based on your Investor Profile. You may choose to accept our recommendation or select a different Investment Strategy for the account. If you select to invest your account in an Investment Strategy other than the one we have recommended, we may ask you to update certain aspects of your Investor Profile in order to align it with the Investment Strategy you have selected. Once you have selected the Investment Strategy in which to invest, MSWM will have discretion to determine what securities to purchase and sell for your account and will implement such investment decisions without your further consent, based on the discretionary authority you have granted us. Investments in your account will be composed of ETFs.

You also have the option of choosing certain client-selected strategies (“Client-Selected Strategy”) as an overlay to the investments that we include in the management of your Investment Strategy. The Client-Selected Strategies include smart beta or socially responsible investment holdings. By choosing a Client-Selected Strategy, you acknowledge and agree that MSWM is not providing investment advice regarding your decision to use a Client-Selected Strategy and related investments, nor is MSWM advising on the prudence of such selections. You should be cognizant when choosing a Client-Selected Strategy that such portion of the portfolio could perform differently from other strategies available in the Program. Therefore, the Client-Selected Strategy could meet certain personal investment preferences, but you need to consider whether these strategies are in your best interest.

You should be aware that the Program is not designed to provide you with a comprehensive financial plan but rather to recommend an Investment Strategy that seeks to achieve the specific investment goal that you have indicated.

**Tax-loss harvesting.** If available, you may request that we seek to “harvest” tax losses across all your eligible taxable accounts in the Program. In effecting tax-loss harvesting, we will not consider dividends in your account or any assets you may hold in other accounts at MSWM that are not invested in the Program. We will also not consider any Client-Selected Strategy held in your account.

Upon confirmation of your tax-loss harvesting enrollment, we will:

- i. Monitor your account(s) daily for eligible losses that can be sold to satisfy a tax-loss harvest.
- ii. Once an eligible loss exceeds approximately 10% of the account value and is over \$100, sell ETF shares to realize the losses in your account.
- iii. Monitor all accounts in the Program to ensure that all transactions comply with Internal Revenue Service guidelines during the wash sale period (the 61-day period from 30 days before to 30 days after the date of sale during which an investor cannot purchase substantially identical stocks or securities).
- iv. Reinvest the proceeds of such sale in one or more broad-based ETFs or cash equivalents during any applicable restricted period.
- v. Hold the replacement ETF shares or cash equivalents or other securities in your account for a minimum of 30 days. Thereafter, we will monitor the value of the replacement security and generally not sell it if the sale will result in a substantial short-term capital gains tax. However, the replacement security may be sold in certain instances where the potential short-term capital gain is below a specified minimum threshold. In such case, the sale will result in ordinary income to you.
- vi. Once the replacement security is sold, we will invest the proceeds in the account in accordance with the applicable Investment Strategy. If you open a new account during this 30-day restricted period and the Investment Strategy you selected calls for your account to be invested in a security that was harvested in another account in the Program, your account will instead be invested in a replacement ETF with similar risk and asset class characteristics during the restricted period. Once the restricted period ends, we will seek to invest in the security originally mandated by the Investment Strategy in a tax-efficient manner.

There is no guarantee that any harvesting request will achieve any particular tax result. MSWM does not provide you with any tax advice in connection with tax-loss harvesting. Tax-loss harvesting may adversely affect the investment performance of your account(s).

**Electronic relationship.** When available, the Program is offered through an interactive digital platform on etrade.com and is accessible on the internet on a variety of mobile platforms. This means that most of your interactions with MSWM will be conducted electronically via email, a dedicated Program website on the internet, and/or the Program’s mobile application. You may also call the Core Portfolios Support Team at 866-484-3658.

You can access important documents, view your account holdings and transactions, and review your portfolio’s performance on the Program’s website and mobile application. You will be asked to provide information to us by email or on the Program website or mobile application. We will generally send all communications regarding your account electronically, as well. We will not send you any account documentation or communications in paper form unless we are required to do so pursuant to applicable law or we determine to do so at our own discretion. Your continued participation in the Program is contingent on your agreeing to receive all required account documentation and communications electronically. You should take into consideration the electronic nature of the Program when determining whether it is appropriate for your investment needs and goals.

**Account opening.** To enroll in the Program and open an account, you must provide us with certain information required to create your Investor Profile, including your investment goal and risk tolerance, as well as certain additional information about your financial situation. You must enter into the MSWM Core Portfolios Investment Advisory Agreement (“Advisory Agreement”), which describes the terms and conditions governing your account and the discretionary investment advisory services we provide to you. You will also be required to complete and execute additional account documentation, including the E\*TRADE from Morgan Stanley Client Agreement for Self-Directed Accounts (“Account Documentation”), which will govern the custody of your account assets and the execution of securities transactions in your account.

All the terms of the Advisory Agreement and the Account Documentation will set forth our mutual obligations regarding your account. Upon the completion and execution of the Advisory Agreement and all required Account Documentation, we will open your account for you within a reasonable amount of time. Until we incept your Program account, your assets will be held in a brokerage account and cannot be traded. During such time, the account assets will not be actively managed or incur the Advisory Fee (as defined in Item 4.C below), nor will MSWM act as a fiduciary with respect to such assets.

**Investment restrictions.** You may request reasonable restrictions on the management of your account by requesting that an alternative ETF is selected for a particular asset class. MSWM will determine at our sole discretion if we will agree to any such requested restriction and how to implement it. We may implement restrictions differently in accounts that have elected tax-loss harvesting, if available. Any restriction you impose will not apply to the management of the underlying securities in any

ETF included in your account. Implementation of any such restrictions may have a negative impact on the performance of your account. You may request to impose reasonable investment restrictions on your account by calling the Core Portfolios Support Team at 866-484-3658.

The compliance of any investment with any investment restrictions shall be determined on the date of purchase only, based on the price and the characteristics of the investment on the date of purchase compared with the value of the account as of the most recently preceding valuation date.

Although we may accept reasonable restrictions as described above, we will not have any obligation to manage your account in accordance with any investment guidelines, policy statements, or other documents unless we specifically agree to do so in writing.

### **Trading and Execution Services**

Pursuant to the investment and trading discretion you grant us under the terms of the Advisory Agreement, MSWM will manage the securities held in your account in such manner as we may deem advisable, subject to the terms and conditions of the Advisory Agreement, the Investment Strategy, and any Client-Selected Strategy.

As a general matter, transactions for the purchase or sale of securities and other investments in your account will be effected through MSWM or an affiliate. We may reallocate or rebalance assets in your account without your prior consent to each such transaction. Reallocation of assets may have tax consequences.

**Best execution.** We will always attempt to obtain the most favorable terms for any transaction that we make in your account. This practice is often referred to as “best execution” in the industry and entails the efficient placement of orders, clearance, settlement, and the overall quality of executions as well as cost of the transactions. For transactions effected in your account in an ETF, we may determine that best execution is more likely to be achieved by having a broker-dealer other than MSWM or an affiliate execute the transaction, even though such broker-dealer requires payment of a commission or commission equivalent to execute the transaction. This applies to certain transactions, including, without limitation, block trades in which we aggregate securities purchases or sales for your account with those of one or more of our other clients. In such instance, you will incur additional fees or charges related to these trades. These costs are in addition to the Advisory Fee described below, will be included in the net price of the security, and will not be reflected as a separate charge on your trade confirmations or account statements.

**Aggregation of transactions.** MSWM, acting for your account, may aggregate orders for the same securities with other clients, our own accounts, and/or accounts of our employees or related persons. In such cases, each account in the aggregated transaction is charged or credited with the average price per unit and, where applicable, any additional fees.

**Custody of your account assets.** MSWM will generally maintain custody of all cash, securities, and other investments in your account. As custodian, we will maintain your account assets, debit fees and other expenses, process deposits to and withdrawals from the account, and provide such other custodial functions as are

customarily performed with respect to securities brokerage accounts.

There may be instances in which certain of your cash is custodied elsewhere as part of our sweep program, the Bank Deposit Program, as further described in Item 4.C below under “Cash Sweeps.” In such case, we will provide you with notification as to the applicable custodian.

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

MSWM provides you with written confirmation of each securities transaction effected in your account. Pursuant to the terms of the Advisory Agreement, we suppress the delivery of trade confirmations after the completion of each trade. Instead, information about securities transactions executed in your account will be included on your monthly account statement. This suppression of trade confirmations will generally be implemented in your account one day after account inception. You are not required to agree to this provision, and you may choose to receive from us, at no additional cost, trade confirmations for every transaction, for a specific transaction, or for any period in which you elected not to receive individual trade confirmations. You can also revoke your authorization at any time. You may select any of these options by contacting the Core Portfolios Support Team at 866-484-3658. Even in instances where you have requested to suppress the delivery of trade confirmations, we may still deliver trade confirmations after the completion of certain trades. You will also receive fund prospectuses when appropriate.

We will also provide monthly account statements for each month in which activity occurs in your account, but we will send you an account statement at least quarterly even if there is no activity in your account. These monthly account statements will reflect all of the transactions effected in your account, your holdings, any deposits to or withdrawals from the account, the amount of fees and expenses deducted from the account (as further described under “Advisory Fee” below), as well as any realized and unrealized gains and losses in the account.

You should review all such trade confirmations and account statements promptly upon receipt and notify us immediately of any errors or discrepancies.

You may review performance information about your account at any time on the Program’s website or mobile application. We recommend that you review your account performance periodically.

### **Advisory Fee**

To participate in the Program, you will pay an annualized fee of 0.30% of assets under management (“Advisory Fee”). The Advisory Fee covers (a) our investment advisory and discretionary portfolio management services, (b) the execution of transactions in your account, (c) custody of your account assets, and (d) reporting. This is a wrap fee.

MSWM may offer certain promotional discounts on the Advisory Fee. A discounted Advisory Fee or waiver of the Advisory Fee for a period of time may be available in certain instances or for a certain category of investors, including but not limited to MSWM

employees and participants in stock option plan services. Certain clients may also be eligible to pay a discounted Advisory Fee based on such factors as the type and size of a client's relationship with MSWM and/or our affiliates. We will send you written confirmation of your Advisory Fee rate upon account opening.

**Deposits and withdrawals.** You may make deposits into the account at any time, subject to our right to terminate the account. To fund your account, we accept cash or securities. Securities transferred to fund an account will generally be liquidated upon receipt. Additional deposits are limited to cash. However, we may accept certain types of securities for deposit at our discretion. In the event that the securities you hold are or become incompatible with MSWM's advisory platform or otherwise ineligible for the Program, MSWM may terminate your account or sell your incompatible securities, in its discretion, when the account is opened, or at any time thereafter in accordance with applicable law. We will liquidate securities transferred or journaled into your account to fund the account, and the cash proceeds will be invested in the Investment Strategy. If ETFs or mutual funds are transferred or journaled into the account, you will not recover the front-end sales charges previously paid and/or may be subject to a contingent deferred sales charge, a redemption, or other fee based on the length of time that you have held those securities.

We may require that you provide us with up to five days' prior notice of a withdrawal of assets from the account, which will be processed subject to the usual and customary securities settlement procedures. If you wish to withdraw a partial balance from the account, upon your request we will liquidate securities from your account representing the amount you have requested to withdraw, and thereafter you will be permitted to make a withdrawal of the cash. If you wish to withdraw securities from the account, you may do so only if you withdraw the full balance of the account. Withdrawals of securities representing a partial balance of the account are not permitted.

No Advisory Fee adjustment will be made during any billing period for withdrawals or deposits. No Advisory Fee adjustment will be made during any billing period for appreciation or depreciation in the value of account assets during that period.

**Refund upon account termination.** The Advisory Agreement may be terminated at any time upon verbal or written notice by either party or the other, and termination will become effective upon receipt of (or as otherwise specified in) such notice. If the account is terminated by either party, you will be entitled to a prorated refund of any Advisory Fee based on the number of days remaining in the billing month after the date upon which notice of termination is effective.

**Valuation of account assets.** In computing the value of assets in the account, MSWM will value ETFs traded on any national securities exchange or national market system, as of the valuation date, at the closing price and/or the mean bid and ask prices of the last recorded transaction on the principal market on which they are traded.

In valuing assets, we use information provided by recognized independent quotation and valuation services. We believe this information to be reliable but do not verify the accuracy of such information provided by these services. If any of the above-

referenced methods are not available to us or if we do not believe them to be accurate, we will value any securities and investments in the account in a manner we determine in good faith to reflect fair market value.

**When fees are payable.** The Advisory Fee is charged monthly in advance. The initial Advisory Fee is due in full on the date the account is inception at MSWM (the "Inception Date") and is based on the market value of the assets in the account on or about that date. Inception occurs when MSWM has notified you that it has approved the account for trading, and you have deposited sufficient funds into the account. MSWM will begin investing assets within a reasonable amount of time, generally not to exceed sixty (60) days, after you have deposited the sufficient funds into the account. The initial Advisory Fee payment generally covers the period from the Inception Date through the last day of the applicable billing period and is prorated accordingly. However, in certain instances where the Inception Date occurs close to the end of a billing period, the initial Fee shall cover the period from the Inception Date through the last day of the next full billing period and is prorated accordingly. Thereafter, the Advisory Fee is paid monthly in advance based on the account's market value on the last business day of the previous billing month and is due promptly.

The Advisory Agreement authorizes us to deduct from the assets in the account, the Advisory Fee and any other fees and expenses described in this ADV Brochure and/or the Advisory Agreement when due. We reserve the right to liquidate a portion of your account assets to cover the Advisory Fee and all other fees and expenses at any time. Liquidation may affect the relative balance of your account and may also have tax consequences and/or cause your account to be assessed transaction charges.

## Fractional Shares

With fractional share investing, your account may be eligible to purchase fractional share positions of ETFs and other eligible securities in accordance with your account asset allocation. Fractional share investing is offered as an accommodation in Core Portfolios. MSWM is under no obligation to continue to facilitate, support or execute any fractional share transaction or custody of fractional shares in the future. The potential benefits of investing in fractional shares include, but are not limited to, achieving greater opportunity for portfolio diversification by allowing your account to hold more positions and asset classes within your portfolio which your account might not otherwise have been able to hold; participating in fractional dividend distribution; and lowering cash holdings. Clients holding fractional shares can see these portfolio positions reported in US dollars or shares. However, fractional shares are typically not recognized outside of Morgan Stanley and therefore are illiquid, cannot be sold directly into the market and cannot be transferred via an automatic clearinghouse. There is no guarantee that there will be a market for fractional shares of a particular security and MSWM has not committed to, and is not obligated to, make a market in such securities.

Certain securities and investment strategies may be ineligible for fractional share investing, as determined by MSWM in its discretion. If certain previously eligible securities or investment strategies in your account become ineligible for fractional share investing, we will process a liquidation of such fractional share positions and will credit the proceeds to your account. Upon termination of your advisory account, your fractional share positions will remain in your account until the positions are fully liquidated. Fractional shares cannot be transferred to another brokerage firm. In order to transfer fractional share holdings to another brokerage firm, the fractional shares will need to be liquidated and the proceeds of such liquidation can then be transferred out.

In addition to the limited liquidity and transferability, there are other unique features, limitations, and risks that you should be aware of before engaging in fractional share investing:

*Order Types:* MSWM only accepts market and limit orders for fractional share orders of 1 share or greater; for orders less than 1 share, only market orders are accepted.

*Capacity & Order Execution:* Fractional share transactions cannot be routed to an exchange or other market makers for execution. Therefore, the fractional share component of an order will need to be matched up with shares held in inventory by MSWM to make a whole share which can then be routed for execution. This means that MSWM will be trading alongside the fractional share trade to facilitate the order. In this case, the order will be routed out for execution in an agency capacity. MSWM will not be trading with these orders as principal. (See “Trading and Execution” below for more information on trading alongside).

For orders greater than 1 share, the fractional share portion of the trade will be treated in the same manner as the whole share portion of the trade (i.e., held vs. not held). For orders less than 1 share, the fractional share will be treated as held.

If a pre-market fractional share “sell” order is submitted and MSWM does not hold any shares in inventory, MSWM will be required to purchase one share in the market to be able to round the fractional share up to a whole share before the order can be sent for execution. In that case, the trade will not receive the opening auction price for these executions.

In the event of a trading halt, all trading, including fractional share transactions, will be halted until the halt is lifted and trading resumes.

*Additional Considerations for “Sell” Orders:* If a fractional share “sell” order is placed and MSWM does not hold any shares in inventory, MSWM will be required to purchase one share in the market to be able to round the fractional share up to

a whole share before the order can be sent for execution. For example, for a “sell” order of 100.5 shares, MSWM would need to match up 0.5 shares from inventory with the order of 100.5 shares in order to be able to route whole shares for execution. If MSWM does not have any shares in inventory, MSWM would go out into the market and buy 1 share. It would then match up 0.5 shares (keeping the other 0.5 shares in inventory) with the 100.5 share order and route out a “sell” order of 101 to the market for execution. As such, there could be a delay in execution of such “sell” order as we obtain a share to match up with the fractional share trade in order to facilitate its execution.

*Dividends, Corporate Actions and Voting:* You are entitled to receive any dividends paid on your fractional share positions. The dividend payable in respect of your fractional share position will be an amount proportionate to your ownership interest. Fractional shares will be eligible to participate in both mandatory corporate actions (e.g., stock splits, mergers) as well as voluntary corporate actions (e.g., tender offers). However, you will not have voting rights for any of the fractional shares held in your account. You will only be permitted to vote in respect of your whole share positions.

For additional information about fractional share trading, please contact us.

## **B. Comparing Costs**

The Advisory Fee is a wrap fee, which means you pay one fee, based on the market value of the account, for the advisory, execution, custody, and reporting services we provide to you under the Program. Depending on the level of trading and the types of securities purchased or sold in your account, you may pay more or less for such services than if you purchased such services separately (to the extent that such services would be available separately). You may also be able to obtain transaction execution at a higher or lower cost in a brokerage account at MSWM or elsewhere. However, such transactions could not be executed on a discretionary basis by us in a brokerage account. Furthermore, the same or similar services to those available in the Program may be available at a lower fee in programs offered by other investment advisers.

When assessing a wrap fee program’s cost, you should consider the amount of trading activity you anticipate, other wrap fee programs offered by MSWM, and such factors as commission rates, your investment experience and knowledge, and your availability to monitor and rebalance investments. ETFs charge underlying fees and expenses that are separate and apart from the Advisory Fee.

For certain investment styles, there may be a fund and separately managed account (“SMA”) offered by the same investment management firm; therefore, the underlying investments in the SMA and the fund may be substantially identical. Because the underlying expenses and fees of the SMA are generally lower, the performance of an SMA is generally higher than that of the



comparable fund. Therefore, for such investment styles, if the client meets the minimum level of investment for the SMA, the client may have a financial benefit to select an SMA as the investment product. In addition, we offer other programs that do not offer ETFs. The fees in those programs may be higher or lower than the fees in this Program.

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

The Advisory Fee for your account may be higher or lower than the fees that we charge other clients, depending on, among other things, the extent of services provided to those clients and the cost of such services. The Advisory Fee for your account may also be higher or lower than the cost of similar services offered through other financial firms.

### C. Additional Fees

The Advisory Fee does *not* cover the following fees and expenses, which may be charged to your account: (a) the costs of investment management fees and other expenses charged by ETFs; (b) fees or other charges that you may incur in instances where an ETF transaction is effected through a third-party broker-dealer and not through us or our affiliates. Such fees or other charges will be included in the price of the ETF and not reflected as a separate charge on your trade confirmations or account statements; (c) MSWM account establishment or maintenance fees for IRAs and Versatile Investment Plans (“VIP”), which are described in the respective IRA and VIP account and fee documentation (which may change from time to time); (d) account closing/transfer costs; (e) processing fees; and/or (f) certain other costs or charges that may be imposed by third parties (including, among other things, odd-lot differentials, transfer taxes, foreign custody fees, exchange fees, supplemental transaction fees, regulatory fees and other fees or taxes that may be imposed pursuant to law).

#### ETFs in Advisory Programs

Investing in strategies that invest in mutual funds, closed-end funds and ETFs (such mutual funds, closed-end funds and ETFs are collectively referred to in this *ETFs in Advisory Programs* Section as “ETFs”) is more expensive than investing in certain other securities or investment vehicles. In addition to the Advisory Fee, you pay the fees and expenses of the ETFs in which your account is invested. ETF fees and expenses are charged directly to the pool of assets the ETF invests in and are reflected in each ETF’s net asset value. These fees and expenses are an additional cost to you that is imbedded in the price of the ETF and, therefore, are not included in the Advisory Fee reflected on your account statements. Each ETF’s expense ratio (the total amount of fees and expenses charged by the ETF) is stated in its prospectus. The ETF expense ratio generally reflects the costs incurred by shareholders during the ETF’s most recent fiscal reporting period. Current and future expenses may differ from those stated in the policies described in the applicable prospectus.

For all ETF investments, you will also incur fees and other expenses that are paid by the ETF but borne by all of its shareholders (e.g., management fees, custody fees, administrative services and transfer agency fees, redemption fees, portfolio

transaction execution costs, and other fees and expenses, including distribution fees and shareholder servicing fees). Information about such fees and expenses is set forth in each ETF’s prospectus.

You do not pay any sales charges for purchases of ETFs in the Program.

MSWM also receives the following fees and payments in connection with your investment in an ETF.

**Expense payments and data analytics fees.** MSWM receives expense payments and fees for data analytics, recordkeeping, and related services. MSWM provides ETF families with opportunities to sponsor meetings and conferences, and we grant them access to our employees for educational, marketing, and other promotional efforts. ETF representatives may also work closely with us to develop business strategies and support promotional events for clients and prospective clients and educational activities.

Some ETF families or their affiliates reimburse MSWM for certain expenses incurred in connection with such promotional efforts, client seminars, and/or training programs. ETF families independently decide if and what they will spend on such activities, with some fund families agreeing to make substantial annual dollar amount expense reimbursement commitments. ETF families also invite our employees to attend their family-sponsored events. Expense payments may include meeting or conference facility rental fees and hotel, meal, and travel charges. For more information about the payments MSWM receives from these fund families, please refer to “ETF Revenue Sharing, Expense Payments and Data Analytics Fees” section of Morgan Stanley’s Important Account Information brochure which can be found at [morganstanley.com/disclosures](http://morganstanley.com/disclosures).

ETF family representatives are allowed to occasionally entertain and give nominal gifts to our employees (subject to an aggregate entertainment limit of \$1,000 per employee per ETF family per year). MSWM’s non-cash compensation policies set conditions for each of these types of payments and do not permit any entertainment or gifts conditioned on achieving any sales target.

MSWM also provides ETF families with the opportunity to purchase data analytics regarding Fund sales. The amount of the fee depends on the level of data. We also offer sponsors of passively managed ETFs a separate transactional data fee. Additional fees apply to electing to purchase supplemental data analytics regarding other financial product sales at MSWM. For more information about these payments, as well as others, please refer to the “ETF Revenue Sharing, Expense Payments and Data Analytics Fees” section of Morgan Stanley’s Important Account Information brochure which can be found at [morganstanley.com/iai](http://morganstanley.com/iai).

**Conflicts of Interests regarding the Above-Described Expense Payments and Fees for Data Analytics.** The above-described fees present a conflict of interest for MSWM to promote and recommend those ETFs that make these payments rather than other eligible investments that do not make similar payments.

Certain ETFs managed by our affiliates, which include but are not limited to Morgan Stanley Investment Management, Eaton Vance, Boston Management and Research, Calvert Research and

Management, Atlanta Capital Management Company, and Parametric Portfolio Associates, may be included in your account.

To the extent that such ETFs are offered to and purchased by Retirement Accounts, the fee on any such Retirement Account will be reduced or adjusted by the amount of the fund management fee, shareholder servicing fee, and distribution fee that we or our affiliates receive in connection with such Retirement Account's investment in such affiliated ETF.

### Cash Sweeps

At times a portion of your account may be held in cash. This may be due to, among other things, an Investment Strategy's allocation to cash, a liquidation of assets to pay the Advisory Fee, or for liquidity purposes during volatile market conditions. All such cash allocations and free credit balances in your account will automatically be deposited, or "swept," into our Bank Deposit Program ("BDP") as your cash sweep vehicle (the "Sweep Investment").

It is important to note that free credit balances and allocations to cash, including assets invested in the BDP, are included in the calculation of the Advisory Fee.

MSWM will effect sweep transactions only to the extent permitted by law and if you meet the BDP's eligibility criteria.

Under the BDP, funds will be automatically deposited into interest-bearing deposit accounts ("Deposit Accounts") insured by the Federal Deposit Insurance Corporation ("FDIC") established for you by and in the name of Morgan Stanley, as agent and custodian, at one or more FDIC-insured depository institutions (individually and collectively the "Sweep Banks").

You acknowledge and agree that if you are eligible, the BDP will be your designated Sweep Investment. You further acknowledge and agree that the rate of return on the BDP may be higher or lower than the rate of return on other available cash alternatives. MSWM is not responsible if the BDP has a lower rate of return than other available cash alternatives or causes any tax or other consequences.

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

**Conflicts of interest regarding Sweep Investments.** You should be aware that the Sweep Banks, which may be affiliates of MSWM, will pay MSWM an annual account-based flat fee for the services performed by MSWM with respect to the BDP. MSWM and the Sweep Banks will review such fee annually and, if applicable, mutually agree on any changes to the fee to reflect any changes in costs incurred by MSWM. We will not receive cash compensation or credits in connection with the BDP for Retirement Account assets in the Deposit Accounts. The fee received by MSWM may affect the interest rate paid by the Sweep Banks on your Deposit Accounts.

In addition, MSWM, the Sweep Banks, and their affiliates receive other financial benefits in connection with the BDP. Through the BDP, each Sweep Bank will receive a stable, cost-effective source of funding. Each Sweep Bank intends to use deposits in the Deposit Accounts at the Sweep Bank to fund current and new

business, including lending activities and investments. The profitability on such loans and investments is generally measured by the difference, or "spread," between (a) the interest rate paid on the Deposit Accounts at the Sweep Banks and other costs of maintaining the Deposit Accounts and (b) the interest rate and other income earned by the Sweep Banks on those loans and investments made with the funds in the Deposit Accounts.

## Item 5: Account Requirements and Types of Clients

**Account minimums.** To participate in the Program, you must maintain a minimum investment amount of \$500 for the life of the account, except as may otherwise be agreed to by MSWM at our sole discretion. Your account will not be actively managed until the account balance meets this minimum investment amount. If withdrawals cause the account value to fall below \$450, we will require that you deposit additional cash into your account to reach the \$500 minimum. If you fail to maintain the required minimum investment amount, we will discontinue managing your assets in accordance with the Investment Strategy and may require that you close your account. The Program is designed as a long-term investment vehicle, and withdrawals may impair your ability to meet your investment goal.

**Types of clients.** The Program is available for natural person clients who open individual accounts and IRAs. The Program is not available for trusts, charitable organizations, corporations, and business accounts.

## Item 6: Fund Selection and Evaluation

### A. Selection of the Investment Strategy

MSWM uses our proprietary algorithms to provide the investment advisory services under the Program. These algorithms are developed and maintained by MSWM's Global Investment Committee ("GIC"). Based on MSWM's capital market assumptions, the GIC defines the asset allocations that are used as the basis for the model portfolios offered to clients under the Program. MSWM's Investment Solutions Investment Committee selects and invests the specific ETFs that populate these model portfolios.

Based on your Investor Profile, our proprietary algorithm will recommend an Investment Strategy that we believe best fits your investment goal, risk tolerance, and financial needs. You may choose to accept our recommendation or select a different Investment Strategy for the Program account.

Algorithms are also used to monitor for investment rebalancing and to systematically evaluate your portfolio's suitable risk level over time. The deposits and withdrawals that you make are also evaluated by algorithms that determine the specific securities that need to be traded based on the underlying tax lots within your asset allocation, as well as other instructions that may have been provided to MSWM. If you choose to enroll in optional services that may include but are not limited to tax-loss harvesting, your eligible account(s) will be monitored by algorithms that determine the required transactions to effect in your account(s).

Throughout the life of your Program account, if you make any changes to the information in your Investor Profile, the algorithm will also evaluate whether your account should be rebalanced and whether a different Investment Strategy should be recommended.

**Rebalancing your account.** MSWM monitors your portfolio every day, looking for opportunities to rebalance. Whenever the investments in your portfolio drift too far, generally by 5% or more, from the weighted percentage of the portfolio's target asset allocation, we will automatically rebalance your investments to maintain the appropriate risk level aligned with the Investment Strategy that you have selected.

Your account may also be rebalanced when you make material deposits or withdrawals in connection with tax-loss harvesting and when the GIC makes updates to its strategic asset allocation. Rebalancing may have tax implications.

## B. Selection and Review of Funds for the Program

Each Investment Strategy is generally constructed of ETFs.

Our Global Investment Manager Analysis group ("GIMA") evaluates every ETF available to be included in the Program. GIMA may delegate some or all of its functions to an affiliate or third party.

GIMA will conduct a qualitative and quantitative review of each eligible ETF, which will include a review of a complete Request for Information ("RFI") proposal, sample portfolios, asset allocation histories, Form ADV (the form that investment managers use to register with the SEC), past performance information, and marketing literature. GIMA will also consider such additional factors as investment process, investment performance, business and organization characteristics, and personnel depth, turnover, and experience. GIMA personnel may also interview the ETF's key personnel and examine its operations. GIMA may also use a proprietary algorithm—a rules-based scoring mechanism—that reviews various factors and ranks each security on that basis.

Thereafter GIMA periodically evaluates the ETFs on an ongoing basis to determine whether they continue to meet the criteria required to be included in the Program.

## C. Conflicts of Interest

**Advisory versus brokerage accounts.** MSWM may earn more compensation if you invest in the Program and pay the Advisory Fee than if you open a brokerage account and pay commissions for each securities transaction. MSWM therefore has a financial incentive to recommend the Program to you.

We address this conflict of interest by disclosing it to you and implementing processes through which we review your account at account opening to ensure that it is appropriate for you in light of your investment goal and financial circumstances.

**Payments from investment advisers and sponsors of ETF.** *See Item 4.C above (Additional Fees – ETFs in Advisory Programs).* Investment advisers and/or ETF sponsors may also sponsor educational conferences and pay the expenses of our employees attending these events. MSWM's policies require that the training or educational portion of such conferences constitutes

substantially all of the event. Investment advisers and/or ETF sponsors may sponsor educational meetings or seminars in which clients as well as MSWM representatives are invited to participate.

Investment advisers and/or sponsors of ETF are allowed to occasionally entertain and give nominal gifts to our employees (subject to a limit of \$1,000 per employee per investment manager per year). MSWM's non-cash compensation policies set conditions for each of these types of payments and do not permit any entertainment or gifts conditioned on achieving a sales target.

We address these conflicts of interest by ensuring that any payments described in this "Payments from investment advisers and sponsors of ETF" section do not relate to any particular transactions or investments made by our clients with investment managers. Participants in the Program are not required to make any of these types of payments. The payments described in this section comply with Financial Industry Regulatory Authority rules relating to such activities. *See the disclosure in Item 4.C above under "ETFs in Advisory Programs" for more information.*

**Other relationships with ETFs.** Some ETFs included in the Program may have business relationships with MSWM or our affiliates. For example, an ETF may use Morgan Stanley & Co. LLC ("MS&Co") or an affiliate as its broker or may be an investment banking client of MS&Co or an affiliate. GIMA does not consider the existence or lack of a business relationship in determining whether to include an ETF in the Program.

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

**Trading or issuing securities in, or linked to securities in, client accounts.** MSWM and our affiliates may provide bids and offers, and may act as a principal market maker, with respect to the same securities held in client accounts. MSWM, our affiliates, the investment managers/sponsors in our programs, and their affiliates and employees may hold a position (long or short) in the same securities held in client accounts. MSWM and/or our affiliates are regular issuers of traded financial instruments linked to securities that may be purchased in client accounts. From time to time, the trading of MSWM or an affiliate—both for their proprietary accounts and for client accounts—may be detrimental to securities held by a client and thus create a conflict of interest between those trades and the interest advisory services that MSWM provides to you.

**Trade allocations.** MSWM may aggregate the securities to be purchased or sold for more than one client to obtain favorable execution to the extent permitted by law. MSWM is responsible for allocating the aggregated trade in a manner that is equitable and consistent with our fiduciary duty to our clients (which could include, e.g., pro rata allocation, random allocation, or rotation allocation). For block trade orders executed by MSWM, the price to each client is the average price for the aggregated order.

**Services provided to other clients.** MSWM and our affiliates provide a variety of services (including research, brokerage, asset

management, trading, lending, and investment banking services) for one another, for various clients (including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts), and for investment managers and/or ETF sponsors available through the Program. MSWM and our affiliates receive compensation and fees in connection with these services.

We believe that the nature and the range of clients to which such services are rendered are such that it would be inadvisable to exclude categorically all of these companies from an account. Accordingly, it is likely that securities in your account will include some of the securities of companies or ETFs for which MSWM and our affiliates perform investment banking or other services.

**Restrictions on securities transactions.** There may be periods during which MSWM is not permitted to initiate or recommend certain types of transactions in the securities of issuers for which MSWM or one of our affiliates is performing broker-dealer or investment banking services or has confidential or material nonpublic information. Furthermore, in certain investment advisory programs, MSWM may be compelled to forgo trading in or providing advice about Morgan Stanley Parent (as defined in Item 9: “Additional Information” under “Other Financial Industry Activities and Affiliations” below) securities and certain related securities. These restrictions may have an adverse impact on your account’s performance.

MSWM and our affiliates may also develop analyses and/or evaluations of securities sold in the Program, as well as buy and sell interests in securities on behalf of proprietary or client accounts. These analyses, evaluations, and purchase and sale activities are proprietary and confidential, and MSWM will not disclose them to clients. With respect to client accounts, MSWM may not be able to act on any such analyses, evaluations, or information.

MSWM and our affiliates are not obligated to effect any transaction that we believe would violate state or federal law or the regulations of any regulatory or self-regulatory body.

**Research reports.** MS&Co does business with companies covered by its research groups. Furthermore, MS&Co, its affiliates, and client accounts may hold a trading position (long or short) in the securities of companies subject to such research. Therefore, MS&Co has a conflict of interest that could affect the objectivity of its research reports.

**Certain trading systems.** MSWM may effect trades or securities lending transactions on behalf of client accounts through exchanges, electronic communication networks, and/or other alternative trading systems (“Trading Systems”), including Trading Systems in which MSWM or our affiliates may have a non-controlling direct or indirect ownership interest or a right to appoint a board member or observer. If MSWM directly or indirectly effects client trades or transactions through Trading Systems in which MSWM or our affiliates have an ownership interest, MSWM or our affiliates may receive an indirect economic benefit based on our ownership interest. In addition, subject at all times to our obligations to obtain best execution for

our customers’ orders, it is contemplated that MSWM will route certain customer order flow to our affiliates.

Currently, MSWM and/or our affiliates own equity interests (or interests convertible into equity) in certain Trading Systems or their parent companies, including National Stock Exchange of India; BM&F Bovespa; Miami International Holdings Inc.; Equilend; Copeland Markets LLC; MEMX Holdings LLC; Euroclear Holding SA/NV; LCH Group Holdings Limited; Source Holding Ltd; CME; ICE US Holding Company, LP; LCH Clearnet Group LTD. (Clearing); OTCderiv Limited; TIFFE – Tokyo Financial Futures Exchange; iSWAP Limited; EOS Precious Metals Limited; CreditDeriv Limited; FXGLOBALCLEAR; The Depository Trust and Clearing Corporation; CME/CBOT/NYMEX; Dubai Mercantile Exchange; Intercontinental Exchange; Bombay Stock Exchange; Japan Securities Depository Center Inc.; Japan Securities Clearing Corporation; Yensai.com Co., Ltd; and Octaura Holdings LLC.

The Trading Systems on which MSWM trades or effects securities lending transactions for client accounts and in which MSWM or our affiliates own interests may change from time to time. You may contact us for an up-to-date list of Trading Systems in which MSWM or our affiliates own interests and on which MSWM and/or MS&Co trade for client accounts.

Certain Trading Systems offer cash credits for orders that provide liquidity to their books and charge explicit fees for orders that extract liquidity from their books. From time to time, the amount of credits that MSWM and/or MS&Co receives from one or more Trading Systems may exceed the amount that is charged. Under these limited circumstances, such payments would constitute payment for order flow.

Certain Trading Systems through which MSWM and/or MS&Co may directly or indirectly effect client trades execute transactions on a “blind” basis, so a party to a transaction does not know the identity of the counterparty to the transaction. It is possible that an order for a client account that is executed through such a Trading System could be automatically matched with a counterparty that is (a) another investment advisory or brokerage client of MSWM or one of our affiliates or (b) MSWM or one of our affiliates acting for proprietary accounts.

**MSWM affiliates in underwriting syndicate.** If an affiliate of MSWM is a member of the underwriting syndicate from which a security is purchased, MSWM or our affiliates may directly or indirectly benefit from such purchase.

**MSWM distribution of securities.** If MSWM participates in the distribution of new issue securities that are purchased for a client’s account, MSWM will receive a fee, to be paid by the issuing corporation to the underwriters of the securities and ultimately to MSWM, which, if received by us, will be deemed additional compensation to us.

**Other relationships with security issuers.** MSWM and/or our affiliates have a variety of relationships with, and provide a variety of services to, issuers of securities purchased in client accounts, including investment banking, corporate advisory and services, underwriting, consulting, and brokerage relationships. As a result of these relationships with an issuer, MSWM or our

affiliates may directly or indirectly benefit from a purchase or sale of a security of the issuer in a client's account.

In the event of corporate actions with respect to securities held in client accounts, to the extent such corporate actions result in exchanges, tender offers, or similar transactions, MSWM and/or our affiliates may participate in and/or advise on such transactions and receive compensation. The interest of MSWM's affiliates in such corporate actions may conflict with the interest of MSWM's clients. In addition, where an affiliate of MSWM is representing or advising the issuer in a transaction, the interest of the issuer may conflict with client interests and create a potential conflict of interest for MSWM. MSWM also provides various services to issuers, their affiliates, and insiders, including but not limited to stock plan services and financial education for which MSWM receives compensation.

**Investments in Sweep Investments.** At times MSWM may determine that it is in your best interest to maintain assets in cash, particularly for defensive purposes in volatile markets. The above-described Bank Deposit Program revenue and fees for MMFs, administrative services fees for accounts of non-Retirement Account clients, and other payments constitute a potential conflict of interest to the extent that the additional payments could influence MSWM to recommend an Investment Strategy style that favors cash balances.

**Nonpublic information.** In the course of investment banking or other activities, MSWM and our affiliates and agents may from time to time acquire confidential or material nonpublic information that may prevent us, for a period of time, from purchasing or selling particular securities for the account. You acknowledge and agree that MSWM and our affiliates and agents will not be free to divulge or to act on this information with respect to our advisory or brokerage activities, including activities with regard to the account. This may have an adverse impact on the account's investment performance.

**Other investment products available.** MSWM may offer to the public other investment products with similar investment styles and holdings as the Investment Strategies offered through the Program. Such products may be offered at differing fees and charges that may be higher or lower than the fees imposed by us in the Program. Furthermore, a separately managed account may use the same investment manager and investment strategy as an ETF but have different minimum investment amounts and fees. Fees for an SMA may be lower than for a similar ETF.

**Other business with certain firms.** Certain investment advisory firms (which may be the investment advisers of ETFs in the Program) do other business with MSWM or our affiliates.

## D. MSWM Acting as Portfolio Manager

### Description of Advisory Services

MSWM acts as the discretionary portfolio manager of accounts in the Program, as described in Item 4.A "General Description of the Core Portfolios Program and Services" above.

### Tailoring Services for Individual Clients

While MSWM does not provide you with a comprehensive investment plan under the Program, the investment advisory services we provide are tailored to your specific investment goals and financial situation. The Investment Strategy we recommend to you is based specifically on the various suitability attributes that compose your Investor Profile. You may also place reasonable restrictions on the investments in your account, as discussed in Item 4.A above.

### Wrap Fee Programs

MSWM acts as both wrap fee program sponsor and portfolio manager in the Program. MSWM also acts as portfolio manager in the Global Investment Solutions, the Select UMA wrap fee programs, and other programs not listed herein. For more detail please refer to each program's respective ADV Brochure, which you may obtain at: [morganstanley.com/ADV](http://morganstanley.com/ADV). MSWM receives the entire Advisory Fee for the Program.

MSWM does *not* act as portfolio manager in any programs that are not wrap fee programs but are otherwise similar to the Program.

### Performance-Based Fees

The Program does not charge performance-based fees.

### Methods of Analysis and Investment Strategies

- Each model is based on the asset allocation recommendations of MSWM's GIC. The model asset allocations use a combination of ETFs and cash to gain exposure to equities, fixed income, and alternative asset classes. MSWM may change a model's asset allocation at any time. Detailed information about each model is available on request. The Wealth Conservation Model is the GIC's most conservative allocation. This model may be appropriate for clients with a conservative risk tolerance and a need to prioritize preservation of purchasing power. The benchmark for this model consists of 6% MSCI All Country World excluding US Index Net, 14% Russell 3000, 65% Bloomberg US Aggregate Bond Index, and 15% FTSE 3-Month T-Bill Index.
- The **Income Model** is the GIC's second most conservative allocation. This model may be appropriate for clients with a moderately conservative risk tolerance who wish to generate steady income from their portfolio while tempering the risk that comes with more growth-oriented allocations. The benchmark for this model consists of 10.5% MSCI All Country World excluding US Index Net, 24.5% Russell 3000, 55% Bloomberg US Aggregate Bond Index, and 10% FTSE 3-Month T-Bill Index.
- The **Balanced Growth Model** is the GIC's middle-of-the-road allocation. This model may be appropriate for clients with a moderate risk tolerance who are able to tolerate moderate volatility. For the Performance Seeking and Marketing Tracking core portfolios the benchmark consists of 15% MSCI All Country World excluding US Index Net, 35 % Russell 3000, 45% Bloomberg US Aggregate Bond Index, and 5% FTSE 3-Month T-Bill Index.

- The **Market Growth Model** is one of the GIC's more aggressive allocations. This model may be appropriate for clients with a moderate-to-aggressive risk tolerance who are able to tolerate moderate-to-high volatility. The benchmark for this model consists of 19.5% MSCI All Country World excluding US Index Net, 45.5% Russell/ 35% Bloomberg US Aggregate Bond Index, and 0% FTSE 3-Month T-Bill Index.
- The **Opportunistic Growth Model** is a more aggressive allocation. This model may be appropriate for clients with an aggressive risk tolerance who are able to tolerate high volatility. The benchmark for this model consists of 24% MSCI All Country World excluding US..

**The All-Equity Model is the most aggressive allocation. This model may be appropriate for clients with a long time horizon and an aggressive risk tolerance who are able to tolerate high volatility. The benchmark is 100% MSCI All Country World Index NetRisks**

All trading in an account is at your risk. The value of the assets held in an account is subject to a variety of factors, such as the liquidity and volatility of the securities markets. Investment performance of any kind is not guaranteed, and past performance does not predict future performance with respect to any particular account.

In addition, certain investment strategies that ETFs may use in the Program have specific risks, including those associated with investments in common stock, fixed income securities, real assets, American Depositary Receipts, mutual funds, ETFs, foreign securities, and the investments discussed below. Neither MSWM nor our affiliates have any responsibility for any assets not held in the account, nor for any act or failure to act on the part of any third party.

At a minimum, while not an all-inclusive list, you face the following types of investment risks, depending on the selected investment product and the portfolio of held investments.

**Use of algorithms.** MSWM relies on our proprietary algorithms and analytics to provide the investment advisory services offered through the Program, including but not limited to constructing the asset allocation of each Investment Strategy, analyzing your Investor Profile to recommend an appropriate Investment Strategy, and monitoring your account to determine when it is appropriate to rebalance.

The algorithm's ability to recommend an appropriate Investment Strategy may be limited if you do not provide accurate or complete information. And it does not evaluate whether an investment advisory account is in your best interest. The asset allocations of each Investment Strategy are based on the GIC's market assumptions. Such market assumptions are hypothetical projections of investment outcomes based on historical performance of a proxy index and fundamental macroeconomic and financial data. The assumptions do not reflect actual future market movements, investment returns, inflation, taxes, investment product fees and expenses, and other economic conditions that will affect actual performance.

Finally, errors and defects in the algorithm may impact the construction of the Investment Strategies and their asset allocations. To address this risk, the Program's digital platform conducts quality assurance and user acceptance testing on an ongoing basis. MSWM's Model Validation Team performs an evaluation of the model analytics on both an initial and an ongoing basis.

**Rebalancing risk.** A rebalancing strategy seeks to minimize relative risk by aligning the portfolio to a target asset allocation as the portfolio's asset allocation changes. Rebalancing a portfolio could limit the portfolio's upside growth potential, and these types of strategies might rebalance client accounts without regard to market conditions. Furthermore, rebalancing strategies do not necessarily address prolonged changes in market conditions.

**Technology risk.** There are risks involving gaps or errors arising from the use of digital and network technology. These potential gaps could result in errors in the day-to-day management of the Program. We rely on regular testing and reviews of the Program to help manage and mitigate such risks. This is not a guarantee against errors, but it serves to protect the integrity of the systems and seeks to identify and resolve such errors in a timely manner.

**Cybersecurity risk.** MSWM depends on digital and network technology to conduct our day-to-day business operations and to fulfill our obligations to clients. The use of such technology presents a potential risk to both us and you with respect to cyberattacks by unauthorized third parties attempting to disrupt or gain access to sensitive confidential information.

Breaches in cybersecurity can result in incidents that include but are not limited to disclosure of a client's personal identifiable information, misappropriation or destruction of data, denial of service, and operational disruption. Such incidents could cause us or our affiliates to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, and/or financial loss. We rely on internal policies to manage and mitigate risks associated with safeguarding our and our affiliates' information and that of our clients and employees. Adherence to these policies, however, does not guarantee that a cybersecurity incident will not occur.

**Interest rate risk.** Fluctuations in interest rates could cause investment prices to fluctuate and have an adverse impact on the value of fixed income securities. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline. The value of securities with longer maturities is generally affected to a greater degree than the value of securities with shorter maturities.

**Market risk.** The price of a security, bond, or ETF could drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors that are independent of a security's particular underlying circumstances. For example, political, economic, and social conditions can trigger market events.

**Inflation risk.** When any type of inflation is present, a dollar today might not buy as much as a dollar next year because purchasing power can change due to the rate of inflation.

**Duration risk.** Duration is a measure of the sensitivity of the price or principal value of a fixed income investment or portfolio due to a change in interest rates. Generally, fixed income portfolios with longer bond maturities carry a greater duration risk than do portfolios with shorter bond maturities.

**Reinvestment risk.** This is the risk that future proceeds from investments could be reinvested at a potentially lower rate of return (i.e., interest rate). This relates primarily to fixed income securities.

**Credit risk.** This refers to the possibility that an issuer of a bond is not able to make principal and interest payments. Many fixed income securities receive credit ratings from nationally recognized statistical rating organizations that assign ratings to securities by likelihood of issuer default. The ratings range from AAA, which is the highest rating, to D, which indicates no rating. Changes in the credit strength of an issuer is an example of when a reduced rating could affect the value of a bond.

**Business risk.** These risks are associated with a particular industry or a company within an industry. For example, before they can generate a profit, oil-drilling companies depend on finding oil and then refining it, which is a lengthy process. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity despite the economic environment.

**ETFs.** There may be a lack of liquidity in certain ETFs, which can lead to a large difference between the bid and ask prices, increasing the cost to you when you buy or sell the ETF. A lack of liquidity also may cause an ETF to trade at a large premium or discount to its net asset value. Additionally, an ETF may suspend issuing new shares, and this may result in an adverse difference between the ETF's publicly available share price and the actual value of its underlying investment holdings. At times when underlying holdings are traded less frequently—or not at all—an ETF's returns may also diverge from the benchmark it is designed to track.

**Money market funds.** An investment in a money market fund ("MMF") MMF is neither insured nor guaranteed by the FDIC or any other government agency. You could lose money in MMFs. Although MMFs classified as government funds (i.e., MMFs that invest 99.5% of total assets in cash and/or securities backed by the US government) and retail funds (i.e., MMFs open to natural person investors only) seek to preserve the value at \$1.00 per share, they cannot guarantee that they will do so. The price of other MMFs will fluctuate. When you sell shares, they may be worth more or less than the original price. If liquidity falls below required minimums, MMFs may impose a fee upon sale or temporarily suspend sales. During suspensions, shares would not be available for purchases, withdrawals, check writing, or ATM debits.

Moreover, in some circumstances, an MMF may be forced to cease operations when its value drops below \$1.00 per share. In that event, the MMF's holdings are liquidated and distributed to its shareholders. This liquidation process could take up to one month or more. During that time, these assets would not be available to you to support purchases, withdrawals, and, if applicable, check writing and ATM debits.

**Investments in a concentrated number of securities or in only one industry sector (or in only a few sectors).** When strategies invest in a concentrated number of securities, a decline in the value of these securities would cause your overall account value to decline to a greater degree than that of a less concentrated portfolio. Strategies that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuations than are strategies that diversify across a broad range of sectors.

**ETFs that pursue complex or alternative investment strategies or returns.** These ETFs may employ various investment strategies and techniques for both hedging and more speculative purposes such as short selling, leverage, derivatives, and options, which can increase volatility and the risk of investment loss. Alternative investment strategies are not appropriate for all investors.

While ETFs may at times use nontraditional investment options and strategies, they have different investment characteristics than do unregistered privately offered alternative investments. Because of regulatory limitations, ETFs that seek alternative-like investment exposure must use a more limited spectrum of investments. As a result, investment returns and portfolio characteristics of alternative ETFs may vary from traditional hedge funds pursuing similar investment objectives. They are also more likely to have relatively higher correlation with traditional market returns than privately offered alternative investments.

Moreover, traditional hedge funds have limited liquidity with long lock-up periods, allowing them to pursue investment strategies without having to factor in the need to meet client redemptions. On the other hand, ETFs are more liquid. This differing liquidity profile can have a material impact on the investment returns generated by an ETF pursuing an alternative investing strategy compared with a traditional hedge fund pursuing the same strategy.

Nontraditional investment options and strategies are often employed by a portfolio manager to further an ETF's investment objective and to help offset market risks. These features may be complex, however, making it more difficult to understand the ETF's essential characteristics and risks and how it will perform in different market environments and over various periods of time. They may also expose the ETF to increased volatility and unanticipated risks, particularly when used in complex combinations or accompanied by the use of borrowing, or "leverage."

**Risks relating to different classes of securities.** If the issuer of a security files for bankruptcy or reorganization, different classes of securities have different rights as creditor. For example, bondholders' rights are generally more favorable than shareholders' rights in a bankruptcy or reorganization.

**International securities.** Investments in international securities have additional risks, including foreign economic, political, monetary, and legal factors; changing currency exchange rates; foreign taxes; and differences in financial and accounting standards. International investing may not be for everyone. These risks may be magnified in emerging markets and even more so in frontier markets.

**Small capitalization.** Small-capitalization companies may lack the financial resources, product diversification, and competitive strengths of larger companies. The securities of small-cap companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.

**Tax-enhanced strategies.** Such strategies may not be able to deliver realized losses because there are none to take, so this would have a material impact on tracking error (against the benchmark index), or the tracking error would not be consistent over time. Quantitative efforts to identify and correct biases may not reduce—and may increase—tracking error.

MSWM does not render advice to clients on tax and tax-accounting matters. Statements relating to tax in this ADV Brochure are not intended or written to be used and cannot be used or relied on by any recipient, for any purpose, including the purpose of avoiding penalties that may be imposed on the taxpayer under US federal tax laws. You should consult your personal tax and/or legal adviser to learn about any potential tax or other implications that may result from acting on a particular recommendation.

**Smart beta client-directed strategy risk.** Smart beta ETFs favor equities with certain characteristics that may help enhance overall returns. Factors, or specific characteristics of stocks that have performed well historically, are used to select stocks. This strategy also combines elements of active and index investing. An ETF employing a smart beta strategy may have higher portfolio turnover, which may indicate higher transaction costs relative to its benchmark. Using smart beta does not guarantee against underperformance relative to a more traditional market-capitalization-weighted benchmark.

**Socially responsible client-directed strategy risk.** Socially responsible ETFs invest to a specific mandate, including (a) incorporating into the investment analysis socially responsible investing (“SRI”) criteria, sometimes referred to as environmental, social, and governance (“ESG”) investing or impact investing; (b) screening for companies that adhere to ESG standards; or (c) fixed income ETFs focused on community impact securities. SRI and ESG strategies may limit or eliminate exposure to investments in certain industries or companies that do not meet specific ESG criteria. As a result, the ETF may underperform other funds or an appropriate benchmark that does not have an SRI or ESG focus and may forgo certain market opportunities available to strategies that do not use these criteria.

## **Policies and Procedures Relating to Voting Client Securities**

Unless you have expressly retained the right to vote proxies, pursuant to the terms of the Advisory Agreement you delegate proxy voting authority to a third-party proxy voting service provider, Institutional Shareholder Services Inc. (“ISS”), which MSWM has engaged, at no cost to you, to vote proxies on your behalf. You cannot delegate proxy voting authority to MSWM or any MSWM employee, and we do not agree to assume any proxy voting authority from you.

If you expressly retain the right to vote proxies, we will forward to you any proxy materials that we receive for securities in your account. MSWM will not advise you on particular proxy

solicitations. If ISS votes proxies for you, you cannot instruct it on how to cast any particular vote.

If you have delegated proxy voting authority to ISS, MSWM will provide you, on request, with information about how proxies were voted for your account during the prior annual period, as well as ISS’s relevant proxy voting policies and procedures (including a copy of its policy guidelines and vote recommendations in effect from time to time).

If you would prefer to retain the authority and responsibility to vote proxies for your account, please contact the Core Portfolios Support Team at 866-484-3658.

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

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

As the portfolio manager of your account assets in the Program, MSWM relies on the information you provide as part of your Investor Profile, including information regarding your investment goal, financial situation, risk tolerance, and any reasonable restrictions you may impose on the management of your account. This includes information that you provide during the account opening process and throughout your relationship with us. It is your responsibility to promptly notify MSWM of any modifications to your Investor Profile or any investment restrictions you requested and to give us prompt notice if you deem any investments made for the account to be inconsistent with such Investor Profile or investment restrictions.

We reserve the right to refuse to open an account for you if we do not, based solely on our judgment, receive the necessary information from you.

The Program is not offered to clients residing outside the United States. Pursuant to the terms of the Advisory Agreement, you have represented to us that you are a US resident. If you move out of the country, you must notify us as soon as possible. Upon such occurrence, as soon as reasonably practicable upon notification, we will terminate your Advisory Agreement as well as any other applicable Account Documentation. We will transfer your account assets per your instructions and then close your account. You have the option to open a brokerage account or other investment advisory account in other investment advisory programs we offer and transfer your assets to such account.

MSWM may obtain and share information concerning the account with (a) any of our affiliates and any nonaffiliated parties as necessary to effect, administer, enforce, or complete transactions and/or (b) service providers in accordance with applicable state and federal laws.

In addition, if you hold other accounts with MSWM for which you receive investment services from a Financial Advisor (“FA”) or if you opened your Program account as a result of a referral by an FA, such FA will have access to certain information about your account, including your account balance.



## Item 8: Client Contact with the Portfolio Manager

You may contact MSWM via email, the Program's dedicated website, or the Program's mobile application or by calling the Core Portfolios Support Team during normal business hours at 866-484-3658.

## Item 9: Additional Information

### Disciplinary Information

This section contains information about certain legal and disciplinary events.

- On May 12, 2020, the SEC entered into a settlement order with MSWM settling an administrative action which relates to certain information provided in marketing and client communications to retail advisory clients in MSWM's wrap fee programs with third-party managers and MSWM's policies and procedures related to trades not executed at MSWM. In the applicable wrap fee programs, the third-party manager has the discretion to place orders for trade execution on clients' behalf at a broker-dealer other than Morgan Stanley. MSWM permits managers to "trade away" from MSWM in this manner in order to seek best execution for trades. The SEC found that, from at least October 2012 through June 2017, MSWM provided incomplete and inaccurate information indicating that MSWM executed most client trades and that, while additional transaction-based costs were possible, clients did not actually incur them in the ordinary course. The SEC found that this information was misleading for certain retail clients because some wrap managers directed most, and sometimes all, client trades to third-party broker-dealers for execution, which resulted in certain clients paying transaction-based charges that were not visible to them. The SEC also found that, on occasion, wrap managers directed trades to MSWM-affiliated broker-dealers in which clients incurred transaction-based charges in violation of MSWM's affiliate trading policies without detection by MSWM. The SEC noted in the order that it considered certain remedial acts undertaken by MSWM in determining to accept the order, including MSWM enhancing its disclosures to clients, implementing training of financial advisors, enhancing relevant policies and procedures, and refunding clients' transaction-based charges paid to Morgan Stanley affiliates. The SEC found that MSWM willfully violated certain sections of the Investment Advisers Act of 1940, specifically Sections 206(2) and 206(4) and Rule 206(4)-7 thereunder. MSWM consented, without admitting or denying the findings and without adjudication of any issue of law or fact, to a censure; to cease and desist from committing or causing future violations; and to pay a civil penalty of \$5,000,000.
- On June 8, 2016, the SEC entered into a settlement order with MSWM ("June 2016 Order") settling an administrative action. In this matter, the SEC found that MSWM willfully violated Rule 30(a) of Regulation S-P (17 C. F. R. § 248.30(a)) (the "Safeguards Rule"). In particular, the SEC found that, prior to December 2014, although MSWM had adopted written policies and procedures relating to the protection of customer

records and information, those policies and procedures were not reasonably designed to safeguard its customers' personally identifiable information as required by the Safeguards Rule and therefore failed to prevent a MSWM employee, who was subsequently terminated, from misappropriating customer account information. In determining to accept the offer resulting in the June 2016 Order, the SEC considered the remedial efforts promptly undertaken by MSWM and MSWM's cooperation afforded to the SEC Staff. MSWM consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, and to pay a civil penalty of \$1,000,000.

- On January 13, 2017, the SEC entered into a settlement order with MSWM ("January 2017 Order") settling an administrative action. The SEC found that from 2009 through 2015, MSWM inadvertently charged advisory fees in excess of what had been disclosed to, and agreed to by, its legacy Citigroup Global Markets Inc. ("CGM", a predecessor to MSWM) clients, and, from 2002 to 2009 and from 2009 to 2016, MS&Co and MSWM, respectively, inadvertently charged fees in excess of what was disclosed to and agreed to by their clients. The SEC also found that MSWM failed to comply with requirements regarding annual surprise custody examinations for the years 2011 and 2012, did not maintain certain client contracts, and failed to adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Investment Advisers Act of 1940 (the "Advisers Act"). The SEC found that, in relation to the foregoing, MSWM willfully violated certain sections of the Advisers Act. In determining to accept the offer resulting in the January 2017 Order, the SEC considered the remedial efforts promptly undertaken by MSWM. MSWM consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, to certain undertakings related to fee billing, books and records and client notices and to pay a civil penalty of \$13,000,000.
- On February 14, 2017, the SEC entered into a settlement order with MSWM settling an administrative action. The SEC found that from March 2010 through July 2015, MSWM solicited approximately 600 non-discretionary advisory accounts to purchase one or more of eight single inverse exchange traded funds ("SIETFs"), without fully complying with its internal written compliance policies and procedures related to these SIETFs, which among other things required that clients execute a disclosure notice, describing the SIETF's features and risks, prior to purchasing them, for MSWM to maintain the notice, and for subsequent related reviews to be performed. The SEC found that, despite being aware of deficiencies with its compliance and documentation of the policy requirements, MSWM did not conduct a comprehensive analysis to identify and correct past failures where the disclosure notices may not have been obtained and to prevent future violations from occurring. The SEC found that, in relation to the foregoing, MSWM willfully violated section 206(4) of the Investment Advisers Act of 1940 and Rule 206(4)-7 thereunder. MSWM admitted to certain facts and consented to a censure, to cease and desist from committing or causing future violations, and to pay a civil penalty of \$8,000,000.
- On June 29, 2018, the SEC entered into a settlement order with MSWM settling an administrative action which relates to

misappropriation of client funds in four related accounts by a single former MSWM financial advisor (“FA”). The SEC found that MSWM failed to adopt and implement policies and procedures, or systems reasonably designed to prevent personnel from misappropriating assets in client accounts. The SEC specifically found that, over the course of eleven months, the FA initiated unauthorized transactions in the four related client accounts in order to misappropriate client funds. The SEC found that while MSWM policies provided for certain reviews prior to issuing disbursements, such reviews were not reasonably designed to prevent FAs from misappropriating client funds. Upon being informed of the issue by representatives of the FA’s affected clients, MSWM promptly conducted an internal investigation, terminated the FA, and reported the fraud to law enforcement agencies. MSWM also fully repaid the affected clients, made significant enhancements to its policies, procedures and systems (“Enhanced MSWM Policies”) and hired additional fraud operations personnel. The SEC found that MSWM willfully violated section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder. The SEC also found that MSWM failed to supervise the FA pursuant to its obligations under Section 203(e)(6) of the Advisers Act. MSWM consented, without admitting or denying the findings, to a censure; to cease and desist from committing or causing future violations; to certain undertakings, including certifications related to the implementation and adequacy of the Enhanced MSWM Policies; and to pay a civil penalty of \$3,600,000.

MSWM’s Form ADV Part 1 contains further information about its disciplinary history and is available on request from Core Portfolios Support Team.

## Other Financial Industry Activities and Affiliations

Morgan Stanley (“Morgan Stanley Parent”) is a financial holding company under the Bank Holding Company Act of 1956. Morgan Stanley Parent is a corporation whose shares are publicly held and traded on the New York Stock Exchange.

**Activities of Morgan Stanley Parent.** Morgan Stanley Parent is a global firm engaging, through its various subsidiaries, in a wide range of financial services, including: (a) securities underwriting, distribution, trading, merger, acquisition, restructuring, real estate, project finance, and other corporate finance advisory activities; (b) merchant banking and other principal investment activities; (c) brokerage and research services; (d) asset management; (e) trading of foreign exchange, commodities, and structured financial products; and (f) global custody, securities clearance services, and securities lending.

**Broker-dealer registration.** As well as being a registered investment adviser, MSWM is a registered broker-dealer.

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

- MSWM and MS&Co generally do not act as principal in executing trades for MSWM investment advisory clients.

- Regulatory restrictions may limit your ability to purchase, hold, or sell equity and debt issued by Morgan Stanley Parent and its affiliates in some investment advisory programs.
- Certain regulatory requirements may limit MSWM’s ability to execute transactions through alternative execution services (e.g., electronic communication networks and crossing networks) owned by MSWM, MS&Co, or their affiliates.

These restrictions may have an adverse impact on client account performance.

*See Item 6.B “Selection and Review of Funds for the Program” above for conflicts arising from our affiliation with MS&Co and its affiliates.*

**Related investment advisers and other service providers.** MSWM has related persons who are the investment advisers to mutual funds and ETFs in various investment advisory programs, including Morgan Stanley Investment Management Inc.; Morgan Stanley Investment Management Limited; Consulting Group Advisory Services LLC; and Eaton Vance and its investment affiliates. If you invest your assets in an affiliated ETF, MSWM and our affiliates earn more money than if you invest in an unaffiliated ETF. Generally, for Retirement Accounts, MSWM rebates or offsets fees so that MSWM complies with Internal Revenue Service and Department of Labor rules and regulations.

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

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

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

*See Item 4.C above for a description of cash sweep investments managed or held by related persons of MSWM. See Item 6.B above for a description of various conflicts of interest.*

## Code of Ethics

The MSWM US Investment Advisory Code of Ethics (the “Code of Ethics”) applies to MSWM’s employees, supervisors, officers, and directors engaged in offering or providing investment advisory products and/or services (collectively “Employees”). In essence, the Code of Ethics prohibits Employees from engaging in securities transactions or activities that involve a material conflict of interest, a possible diversion of a corporate opportunity, or the appearance of impropriety. Employees must always place the interests of MSWM’s clients above their own and must never use knowledge of client transactions acquired in the course of their work to their own advantage. Supervisors are required to use reasonable supervision to detect and prevent any violations of the Code of Ethics by the individuals, branches, and departments that they supervise.

The Code of Ethics generally operates to protect against conflicts of interest either by subjecting Employees’ activities to specified limitations (including preapproval requirements) or by prohibiting certain activities. Key provisions of the Code of Ethics include:

- The requirement for certain Employees, because of their potential access to non-public information, to obtain their supervisors’ prior written approval or provide pre-trade notification before executing certain securities transactions for their personal securities accounts;
- Additional restrictions on personal securities transaction activities applicable to certain Employees (including FAs and other MSWM employees who act as portfolio managers in MSWM investment advisory programs);
- Requirements for certain Employees to provide initial and annual reports of holdings in their Employee securities accounts, along with quarterly transaction information in those accounts; and
- Additional requirements for pre-clearance of other activities, including but not limited to outside business activities, gifts and entertainment, and US political contributions and political solicitation activity.

You can obtain a copy of the Code of Ethics by contacting the Core Portfolios Support Team at 866-484-3658.

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

## **Reviewing Accounts**

To open an account under the Program and access your account through the Program’s website and mobile application, you are required to set up an online profile, including a login and password. Because of the digital nature of the platform, MSWM has established several layers of “Know Your Customer” and cybersecurity controls that are used during the account opening, approval, and funding process, as well as throughout the life of your account.

As you progress through the online account opening process, you will be prompted with comprehensive disclosures to assist you in providing the appropriate information we require to create your Investor Profile, understanding the Program’s services and features, and determining whether the Program is appropriate for your investment goals and financial situation. Depending on the type of information you provide as part of your Investor Profile, you may also be required to agree to certain attestations.

On a periodic basis supervisors on the Core Portfolios Support Team, as well as in our compliance and risk departments, will conduct reviews of clients whose Investor Profile or account activity for all accounts opened under the Program and may require additional oversight or client communication.

## **Client Referrals and Other Compensation**

MSWM does not compensate third parties for referrals to the Program. *See the disclosure in Item 6.C under “Payments from investment advisers and ETF sponsors” above.*

## **Financial Information**

MSWM is not required to include a balance sheet in this ADV Brochure because we do not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance. We do not have any financial conditions that are reasonably likely to impair our ability to meet our contractual commitments to clients. MSWM and our predecessors have not been the subject of a bankruptcy petition during the past 10 years.