

## **Morgan Stanley Access Direct – Mutual Fund Features, Share Class Options and Compensation**

*This information is specific to mutual fund sales on our self-directed brokerage platform (Morgan Stanley Access Direct). Other available investment options feature different fees and charges, and may provide less compensation to Morgan Stanley.*

Summarized below is important information about mutual fund share classes and the types of fees and expenses you may be required to pay depending upon the share class you select. This summary also explains how Morgan Stanley is compensated when you invest in mutual funds on the Morgan Stanley Access Direct platform. You should consider all of the available methods for purchasing and holding mutual fund shares, including through our affiliate, E\*TRADE. Information on mutual fund transactions at E\*TRADE is available at: <https://us.etrade.com/what-we-offer/investment-choices/mutual-funds> and for our full-service brokerage and advisory accounts at: <http://www.morganstanley.com/disclosures>.

You can also visit the websites sponsored by the U.S. Securities and Exchange Commission ([www.sec.gov](http://www.sec.gov)) and the Financial Industry Regulatory Authority ([www.finra.org](http://www.finra.org)) to obtain additional educational information about mutual funds.

### **EACH MUTUAL FUND IS DIFFERENT**

Mutual funds are securities that are offered for sale through a prospectus. Before investing in a mutual fund, you should read the fund's prospectus and consider its investment objectives, risks, charges and expenses. You can also request a copy of the fund's statement of additional information ("SAI") for additional details.

All mutual funds charge investment management fees and other ongoing expenses for operating the fund that you will pay while you are invested. These fees are described in each mutual fund's prospectus fee table. These fees will vary from fund to fund and for different share classes of the same fund. You can use prospectus fee tables to help you compare the annual expenses of different funds. Of course, in choosing a mutual fund investment, you should also consider the fund's investment objectives and policies, and its risks, which are also described in the prospectus. Determine if they match your own goals and risk tolerance.

### **MUTUAL FUND SHARE CLASS BASICS**

A single mutual fund usually offers different pricing arrangements or "classes" of its shares to meet investor preference and needs. Each share class represents an investment in the same mutual fund portfolio, but offers investors a choice of how, when and whether to pay for fund distribution costs. The key distinctions among share classes are the sales charges, if any, and ongoing fees and expenses you pay in connection with your investment in the fund. It is important to understand the costs associated with various share classes because they decrease the return on your investment (as is the case for all investment costs).

As described below, Morgan Stanley Access Direct offers two types of share classes, but only one option for each available mutual fund. Neither available option is subject to a sales charge

or transaction fee, but other fees and expenses apply as noted below. If you wish to purchase other types of shares, certain of which carry lower overall costs and thereby would increase your investment return, you will need to do so directly with the fund or through an account at another financial intermediary.

### ***Underlying Fund Fees***

All mutual funds charge investment management fees and other ongoing expenses for operating the fund that you will pay while you are invested. You may also be subject to other types of underlying fund fees such as, but not limited to, redemption fees. Please see a mutual fund's prospectus for more information on which underlying fund fees apply.

### ***12b-1 Fees***

Certain mutual fund share classes charge 12b-1 fees (sometimes called "trails"), which take their name from the Securities and Exchange Commission rule under which they were created. The fees are charged against mutual fund assets held in 12b-1 fee paying share classes on a continuing basis to cover marketing, distribution and/or shareholder services costs. Morgan Stanley receives these fees as long as you continue to hold fund shares in 12b-1 fee paying share classes in your Asset Direct account. The amount of the 12b-1 fee is charged as a percentage of the fund's total assets attributable to the share class and is listed in a mutual fund's prospectus fee table.

## **AVAILABLE SHARE CLASSES AND COSTS**

Morgan Stanley Access Direct offers clients a large selection of either "12b-1" mutual funds (i.e., funds that waive their front-end sales charges, but are subject to ongoing 12b-1 fees) and "Non-12b-1" mutual funds (i.e., funds that pay no 12b-1 fees). Neither type of fund is subject to a transaction fee for each purchase, sale and exchange in your Morgan Stanley Access Direct account. The amount of compensation we receive and the charges and expenses incurred by you will vary depending upon whether the fund you purchase is a 12b-1 fund or a Non-12b-1 fund.

Regardless of whether you choose a 12b-1 mutual fund or a Non-12b-1 mutual fund, Morgan Stanley will receive certain types of compensation as discussed in the below section titled "Other Compensation." Please note, however, that while we receive ongoing 12b-1 fees if you purchase 12b-1 funds (typically at the annual rate of \$25 per \$10,000 investment), we will not receive these ongoing fees if you purchase a Non-12b-1 fund.

Please also keep in mind that with respect to a given fund, only one option is available (i.e., 12b-1 or Non-12b-1). If a fund offers both a 12b-1 and Non-12b-1 share class option, we will typically select and offer only the 12b-1 option. The fact that our available fund offerings consist mostly of 12b-1 funds and our preference for this share type represents a conflict of interest for Morgan Stanley since we will earn more from 12b-1 funds than Non-12b-1 funds. Consequently, it is important to understand this distinction between the available funds so that you can determine your most economical purchase option. The amount of compensation we receive for selling you shares of the fund will be directly affected by the share class you purchase. Additional information regarding 12b-1 and Non-12b-1 funds is included below.

### ***12b-1 Funds***

The 12b-1 funds offered on the Morgan Stanley Access Direct platform are generally Class A shares where the front-end sales charge that applies to Class A shares is waived at the time of purchase. However, Class A shares typically charge an annual 0.25% (25 basis point) 12b-1 fee (\$25 per \$10,000 investment) that is deducted from the fund's assets and paid as compensation to Morgan Stanley during each year you hold the investment. Although no transaction fee is charged on the purchase, sale or exchange of 12b-1 funds, the 12b-1 fee increases the fund's internal expenses thereby reducing fund performance.

### ***Non-12b-1 Funds***

No sales charges are applied to the Non-12b-1 funds offered on the Morgan Stanley Access Direct platform. In addition, 12b-1 fees are not assessed against the fund's assets and transaction fees do not apply to purchases, sales and exchanges. Assuming a 12b-1 fund and a Non-12b-1 fund have the same management fee, the Non-12b-1 fund will almost always have lower annual expenses. As a reminder, lowering overall costs directly increases your investment return.

### **CHOOSING A SHARE CLASS**

The differences in payment structure between 12b-1 funds and Non-12b-1 funds should be considered when investing. As noted above, while we only offer one option for a given fund, for similarly-managed funds, investors will generally find Non-12b-1 funds more economical than 12b-1 funds due to the assessment of 12b-1 fees (typically at the rate of \$25 per \$10,000 investment) applicable to the latter. This effect is even more pronounced over time and at higher investment levels given that 12b-1 fees are continually applied against an investor's holdings in a fund.

### **OTHER COMPENSATION**

In addition to the 12b-1 fees applicable to 12b-1 funds described above, Morgan Stanley also receives the following types of compensation related to both 12b-1 and Non-12b-1 mutual funds.

#### ***Transaction Assistance Fee***

Morgan Stanley Access Direct offers investors access to mutual fund investments on a self-directed basis. In the event you instead place a trade with the assistance of the call center, you will be charged a Transaction Assistance Fee (currently \$25.00, but subject to change and exceptions). This fee will be in addition to the 12b-1 fee assessed on 12b-1 funds.

#### ***Revenue-Sharing***

Morgan Stanley charges each fund family we offer a mutual fund support fee, also called a revenue-sharing payment, on client account holdings in fund families according to a tiered rate which increases along with the management fee of the fund so that lower management fee funds pay lower rates than those with higher management fees. The rate ranges from 0.01% per year (\$1 per \$10,000 of assets) up to a maximum of 0.10% per year (\$10 per \$10,000 of assets).

Revenue-sharing payments are generally paid out of the fund's investment adviser, distributor or other fund affiliate's revenues or profits and not from the fund's assets. However, fund affiliate revenues or profits may in part be derived from fees earned for services provided to and paid for by the fund. Morgan Stanley does not receive any portion of these revenue-sharing payments through brokerage commissions generated by the fund.

A list of revenue-sharing fund families, organized by size of payment, is available on our website at the address noted in the “For More Information” section below.

Although we seek to charge all fund families the same revenue-sharing fee rate schedule, in aggregate, Morgan Stanley receives significantly more revenue-sharing from the families with the largest client fund share holdings at our firm. This fact presents a conflict of interest for Morgan Stanley to promote funds from those fund families rather than funds from families that, in aggregate, pay us less revenue-sharing. In addition, since our revenue-sharing rates are higher for funds with higher management fees, this fact presents a conflict of interest for us to select and promote funds that have higher management fees.

### ***Administrative Service Fees***

Morgan Stanley and/or its affiliates receive compensation from funds or their affiliated service providers for providing recordkeeping and related services to the funds. For these services, funds pay 0.06% per year (\$6 per \$10,000) on fund assets held by our clients. We typically process transactions on an omnibus basis, which means we consolidate our clients’ trades into one daily trade with the fund, and maintain all pertinent individual shareholder information for the fund. Trading in this manner requires that we maintain the transaction history necessary for ongoing tax reporting and other position maintenance purposes.

Administrative fees may be viewed in part as a form of revenue-sharing if and to the extent the amounts paid by the fund exceed what the mutual fund would otherwise have paid for those services. However, they are not included in the revenue-sharing payments described above.

While all fund families are charged the same administrative service fee rates, in aggregate, Morgan Stanley receives significantly more administrative service fees from the fund families with the largest client fund share holdings at our Firm. This fact presents a conflict of interest for Morgan Stanley to promote funds from those fund families rather than funds from families that, in aggregate, pay us less administrative service fees.

Please note that some funds offer share classes that do not compensate financial intermediaries for providing administrative services, which generally make such share classes more economical than those that do. You should understand these costs because they decrease the return on your investment. If you wish to purchase a share class that does not compensate your financial intermediary for such services, you will need to do so directly with the fund or through an account at another financial intermediary that offers such shares.

### ***Expense Payments and Data Analytics Fees***

Morgan Stanley provides fund families with opportunities to sponsor meetings and conferences and grants them access to our branch offices for educational, marketing and other promotional efforts. Some fund representatives also work closely with our branch offices to develop business strategies and plan promotional events for clients and prospective clients, and educational activities. Some fund families or their affiliates reimburse Morgan Stanley for certain expenses incurred in connection with these promotional efforts, client seminars and/or training programs. Fund families independently decide if and what they will spend on these activities, with some

fund families agreeing to make annual dollar amount expense reimbursement commitments of up to \$300,000, although actual reimbursements may be higher. Expense payments may include meeting or conference facility rental fees and hotel, meal and travel charges.

Morgan Stanley also provides fund families with the opportunity to purchase sales data analytics. The amount of the fees depends on the level of data and ranges up to \$700,000 per year. For an additional fee, fund families may purchase supplemental data analytics on other financial product sales at Morgan Stanley.

These facts present a conflict of interest for Morgan Stanley to the extent they lead us to promote funds from those fund families that commit significant financial and staffing resources to promotional and educational activities and/or purchase data analytics instead of funds from fund families that do not.

### ***Miscellaneous Compensation***

Morgan Stanley or its affiliates receive, from certain funds, compensation in the form of commissions and other fees for providing traditional brokerage services, including related research and advisory support, and for purchases and sales of securities for fund portfolios. Our affiliate E\*TRADE also receives revenue sharing and other payments from some of the same fund families on our platform. Our affiliates also receive other compensation from certain funds for financial services performed for the benefit of such funds, including but not limited to providing stand-by liquidity facilities. Providing these services may give rise to a conflict of interest for Morgan Stanley or its affiliates to place their interests ahead of those of the funds by, for example, increasing fees or curtailing services, particularly in times of market stress.

Morgan Stanley prohibits linking the determination of the amount of brokerage commissions and service fees charged to a fund to the aggregate values of our overall fund sales, client holdings of the fund or to offset the revenue-sharing, administrative fees or expense reimbursements and data analytics fees described above.

In addition, we generally seek to be reimbursed for the associated operational and/or technology costs of adding and/or maintaining mutual funds on our platform. These flat fees are paid by fund sponsors or other affiliates (and not the funds).

### **AVAILABILITY OF AFFILIATED FUNDS**

Our affiliates, including Morgan Stanley Investment Management, Eaton Vance, Boston Management and Research, Calvert Research and Management, Atlanta Capital Management Company and Parametric Portfolio Associates, serve as the investment adviser to certain mutual funds that are offered through Morgan Stanley Access Direct. These affiliated entities receive investment management fees and other fees from these funds. Therefore, Morgan Stanley has a conflict to promote these affiliated funds. Affiliated mutual fund companies have entered into the same administrative services and revenue-sharing arrangements with Morgan Stanley as described herein.

### **FOR MORE INFORMATION**

For additional information on a particular fund's payment and compensation practices, please refer to the fund's Prospectus and Statement of Additional Information. Further information regarding revenue-sharing and administrative service fees is available at: <http://www.morganstanley.com/disclosures>.

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