

Client Conversations

Renewable Returns: Plugging Your Portfolio into the Future of Energy



Bottom Line: Climate Change Is Creating New Opportunities in the Energy Space

As of August 2017

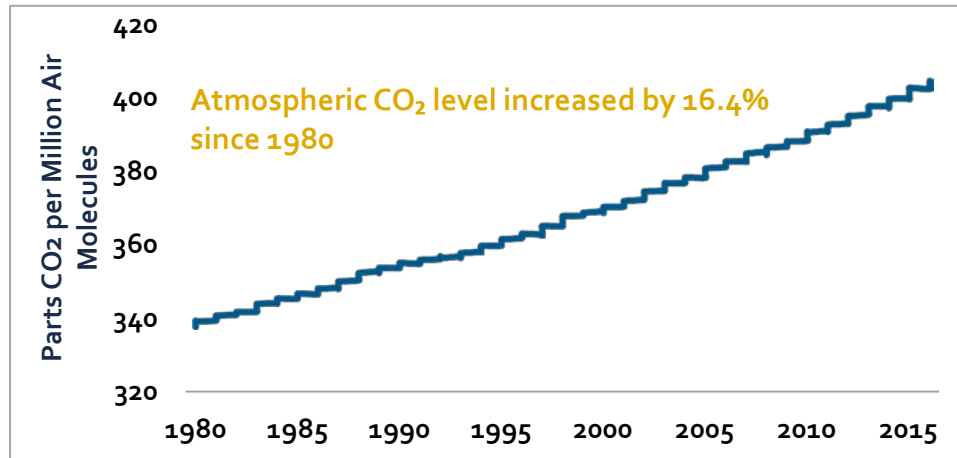
- Greenhouse gas emissions are believed by a majority of scientists to have a significant impact on the environment. Global pressure to mitigate climate change culminated in the Paris Agreement in 2015, which pledged to keep global temperature from rising more than 2 degrees Celsius by 2100.
- Reducing greenhouse gas emissions in order to meet these regulatory goals will require reducing energy consumption, reducing the carbon intensity of energy production, or both.
- These regulatory disruptions provide opportunities for patient investors to position for a future of energy that is carbon-light and conservative.
- Consider coal to gas switching, renewables, and nuclear energy on the supply side, as alternative fuel sources become more cost-effective.
- On the demand side, alternative fueled vehicles and battery storage provide opportunities to use energy more efficiently.
- Key risks: The United States government's withdrawal from the Paris agreement reduces regulatory pressure for carbon efficient energy.

Source: Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy

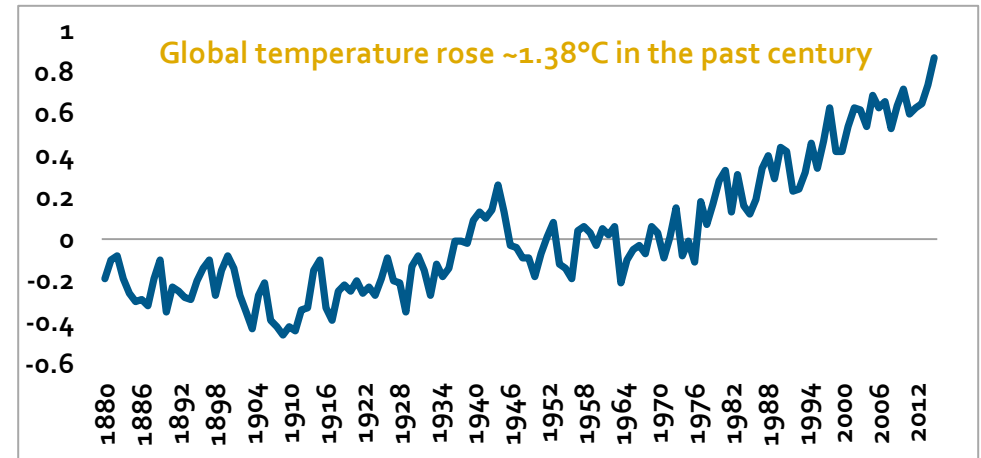
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Greenhouse Gas (GHG) Emissions Believed by Majority of Scientists to Have Significant Impact on Environment

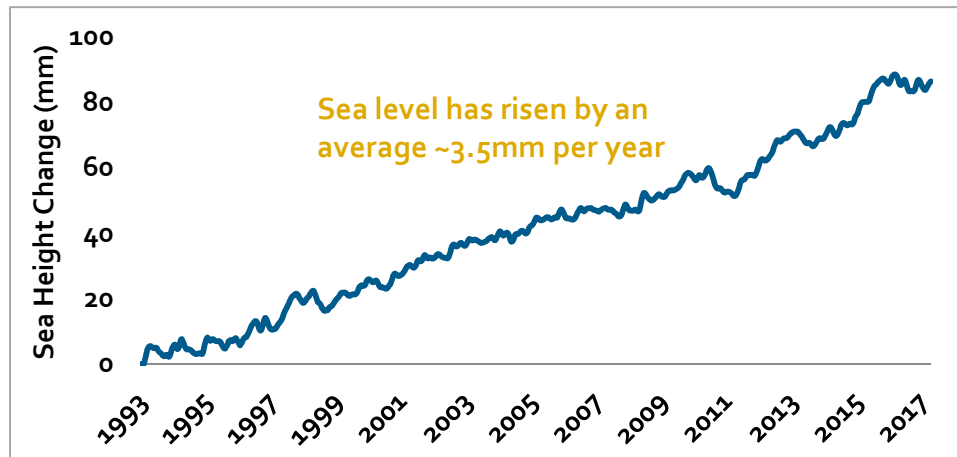
Atmospheric CO₂ Level (ppm)
As of August 2015



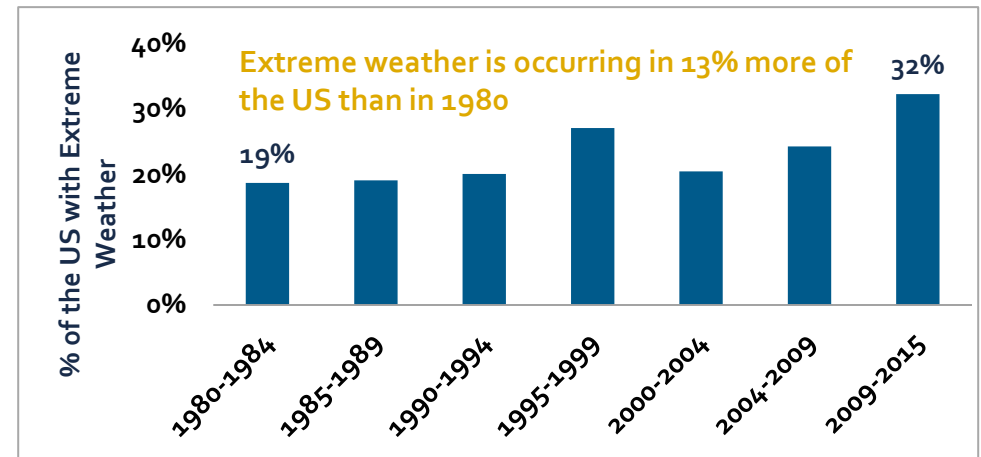
Global Land-Ocean Temperature Anomaly –Annual Mean (°C)
As of August 2015



Sea Level Change Since 1993 (satellite data)
As of April 12, 2017



5-year average US Climate Extremes Index (CEI)
As of August 2015

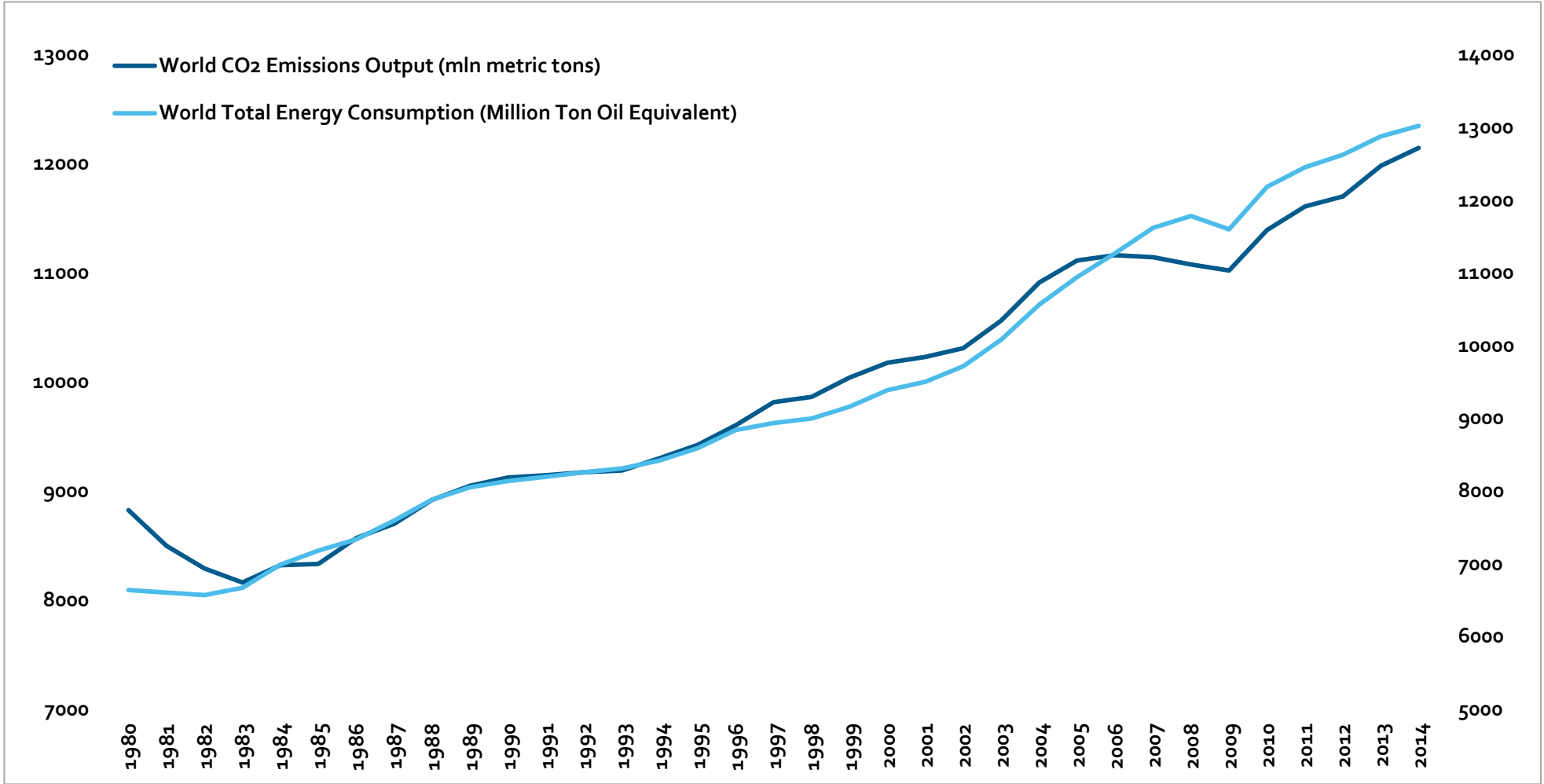


Source: National Oceanic and Atmospheric Administration, NASA's Goddard Institute for Space Studies, NASA Goddard Space Flight Center, The National Center for Environmental Information, Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy

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Emissions Have Been Driven Primarily by Energy Consumption

World CO₂ Emissions Output and World Energy Consumption since 1980
As of December 31, 2014



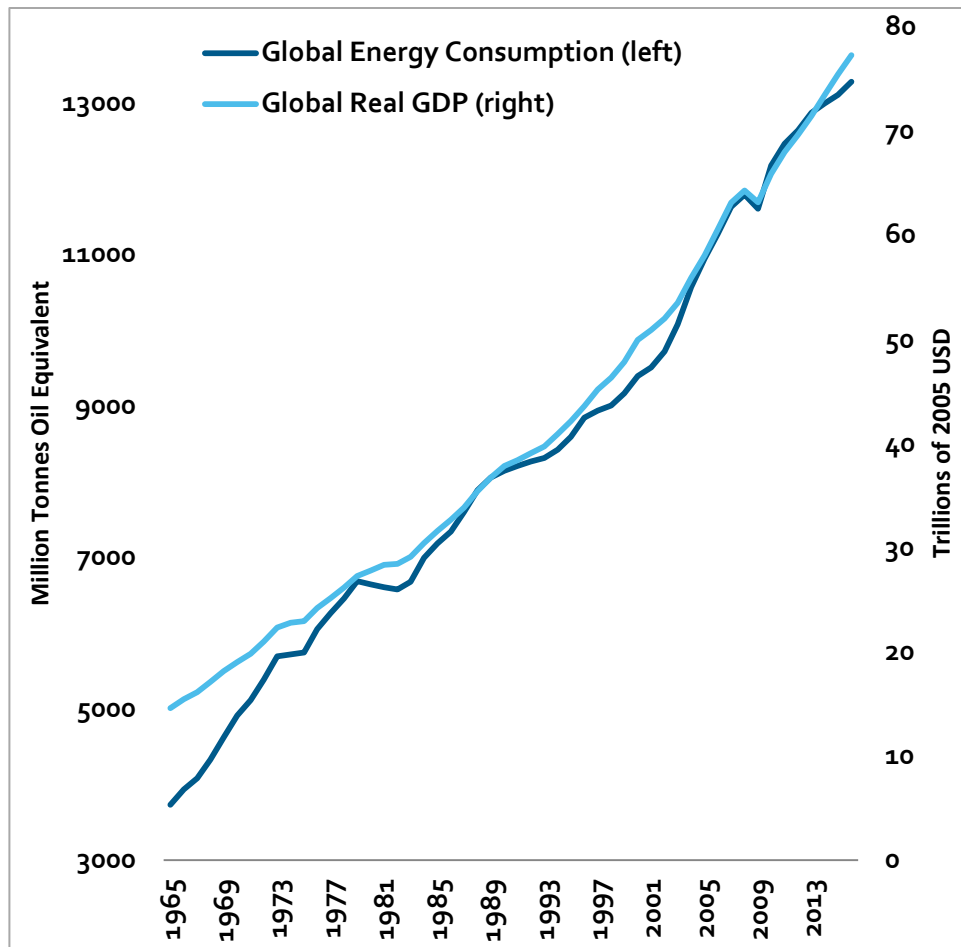
Source: Bloomberg, Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy. World CO₂ emissions represents emissions from consumption of petroleum in the Department of Energy Annual Energy Review.

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Energy Consumption Rising with GDP Growth, Despite Energy Efficiency Gains

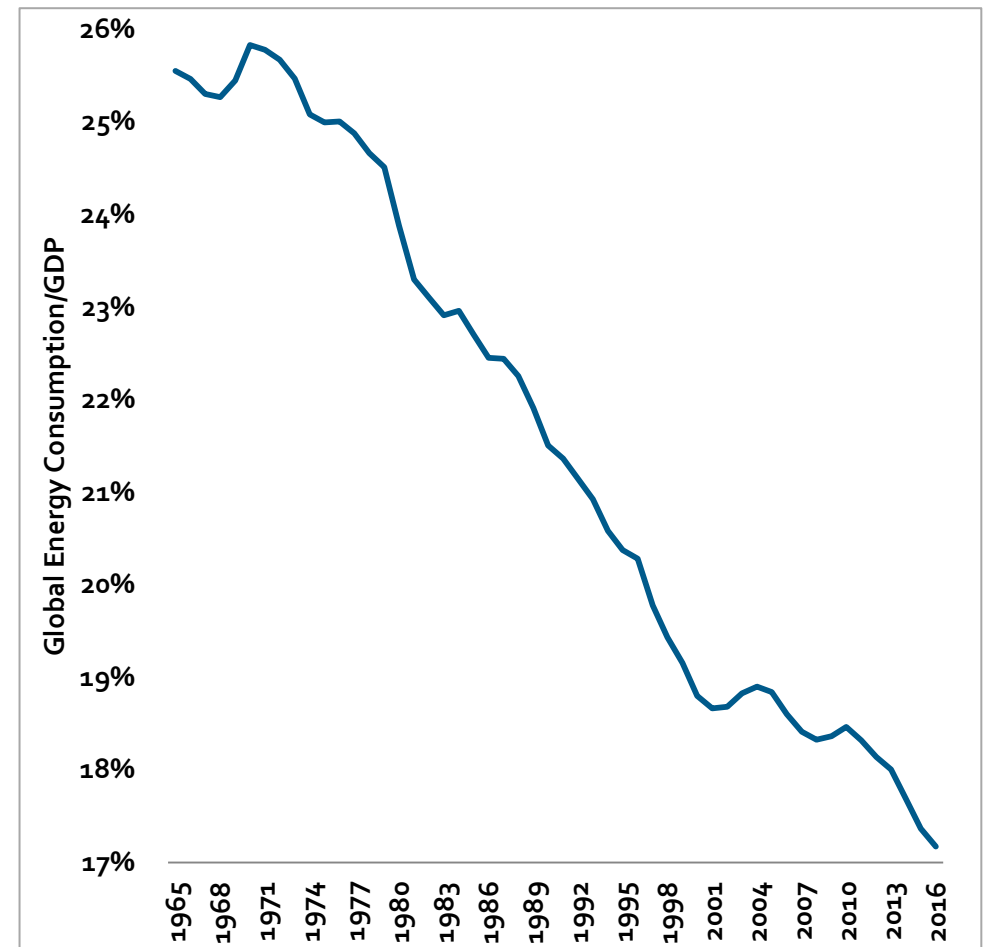
Global Energy Consumption and Real GDP

As of December 31, 2016



Energy Intensity of Economic Activity Globally

As of December 31, 2016



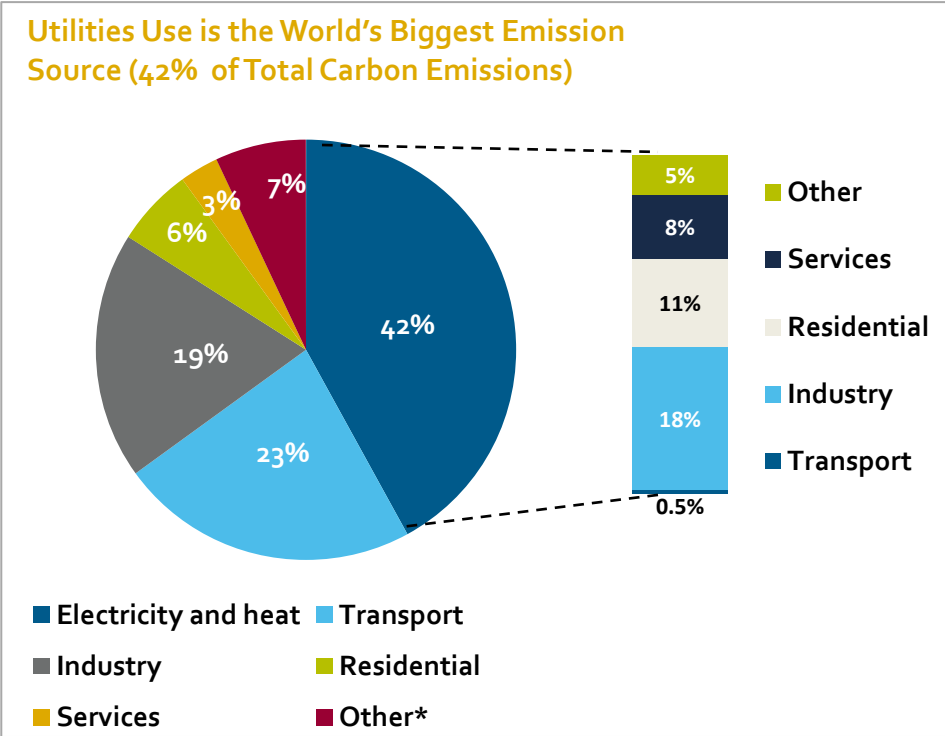
Source: Bloomberg, Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy

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Utilities and Transport Are Major Sources of Greenhouse Gas (GHG) Emissions; EM Quickly Surpassing DM

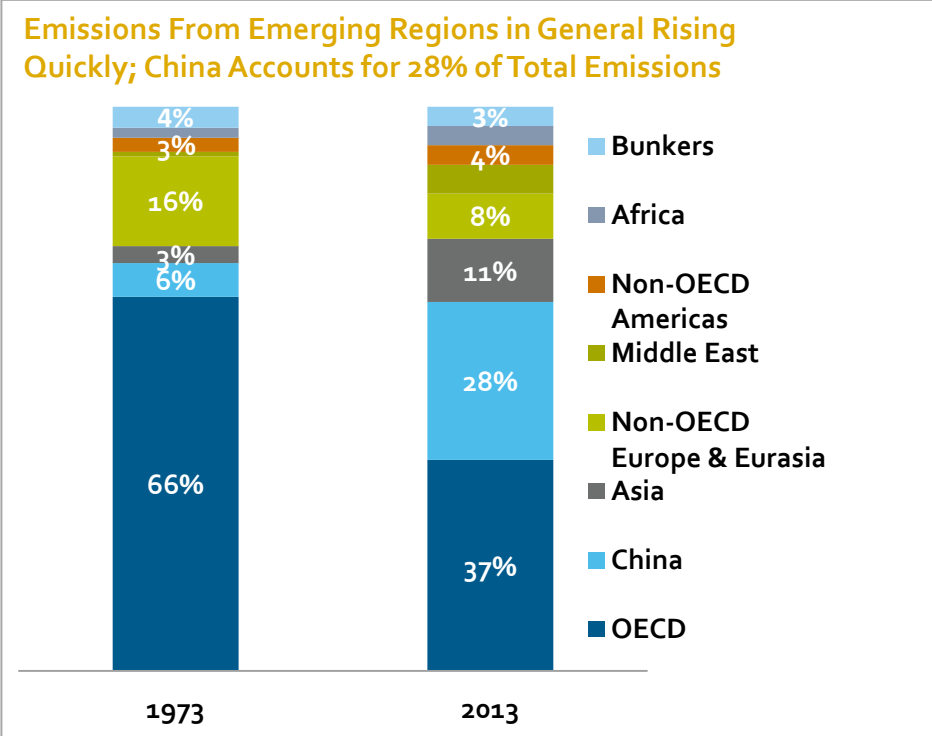
World CO₂ Emissions by End Use Sector in 2012

As of December 31, 2015



Percent of CO₂ Emissions by Region

As of December 31, 2015



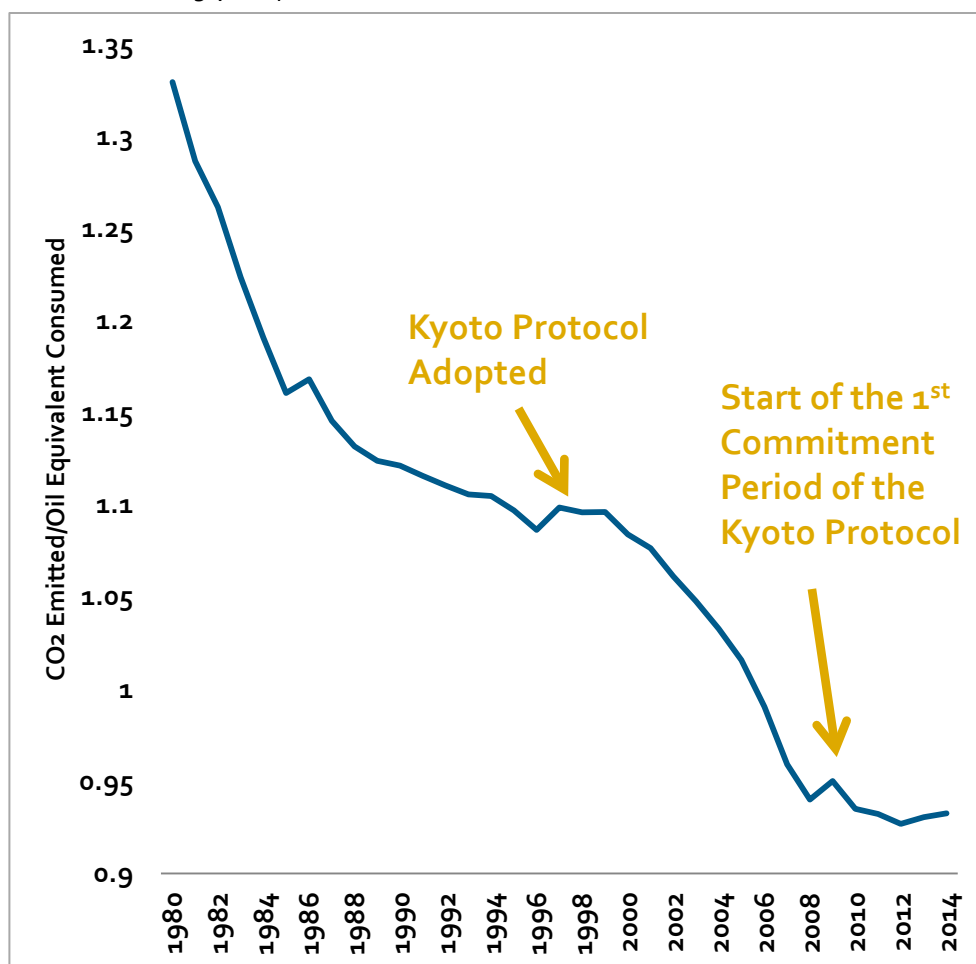
Source: IEA, Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy. *Other includes agriculture/forestry, fishing, energy industries other than electricity and heat generation, and other emissions not specified elsewhere.

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Pledged Regulation Offers Opportunity to Position for 2030

Carbon Intensity of Economic Activity Globally

As of December 31, 2014



Upcoming Climate Regulation Pledged in INDCs for Paris Agreement

As of July 31, 2017

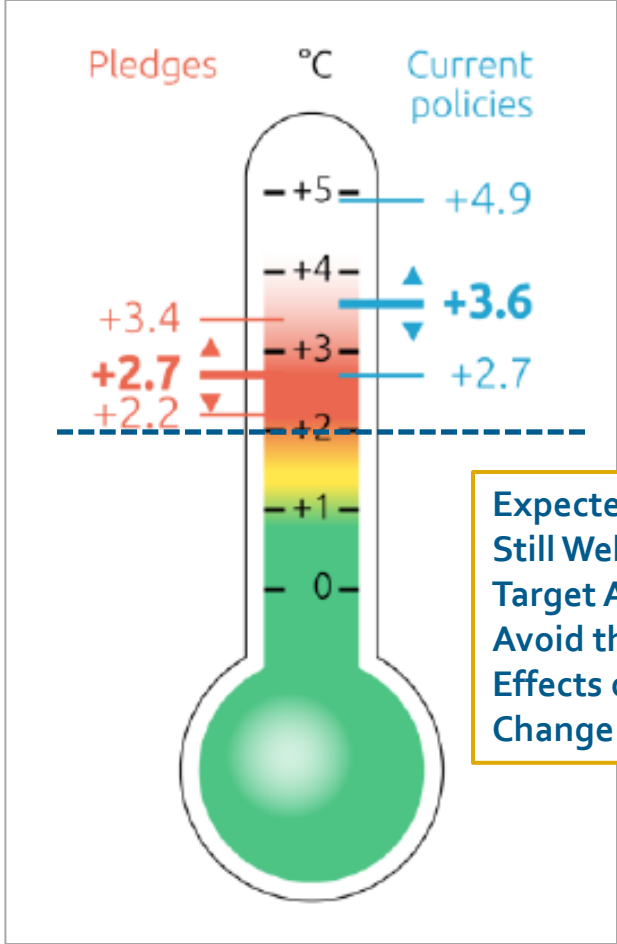
UNFCCC Party	2012 % of World GHG Emissions	GHG Reduction Goal	Base Year	Target Year
China	22.4	60%	2005	2030
United States*	12.2	26%	2005	2025
EU (28)	8.7	40%	1990	2030
Russia	4.7	25%	1990	2030
Japan	2.5	26%	2013	2030
Canada	1.8	30%	2005	2030
Mexico	1.6	25%	BAU	2030
Australia	1.4	26%	2005	2030
South Korea	1.4	37%	BAU	2030
Ethiopia	0.3	64%	BAU	2030
Morocco	0.2	32%	BAU	2030
Kenya	0.1	30%	BAU	2030
New Zealand	0.1	30%	2005	2030
Singapore	0.1	36%	2005	2030
Switzerland	0.1	50%	1990	2030
Trinidad & Tobago	0.1	30%	2013	2030
Norway	0.1	40%	1990	2030

Source: Bloomberg, UNFCCC, Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy. "BAU" stands for business-as-usual. BAU estimates what a country's GHG emissions would be in 2030 if no actions were taken to limit emissions. *On June 1, 2017 the President of the United States announced the government's withdrawal from the Paris Agreement. However, many states and municipalities have committed to keeping their share of the pledges, meaning the overall impact of the original UNFCCC goals could still be met.

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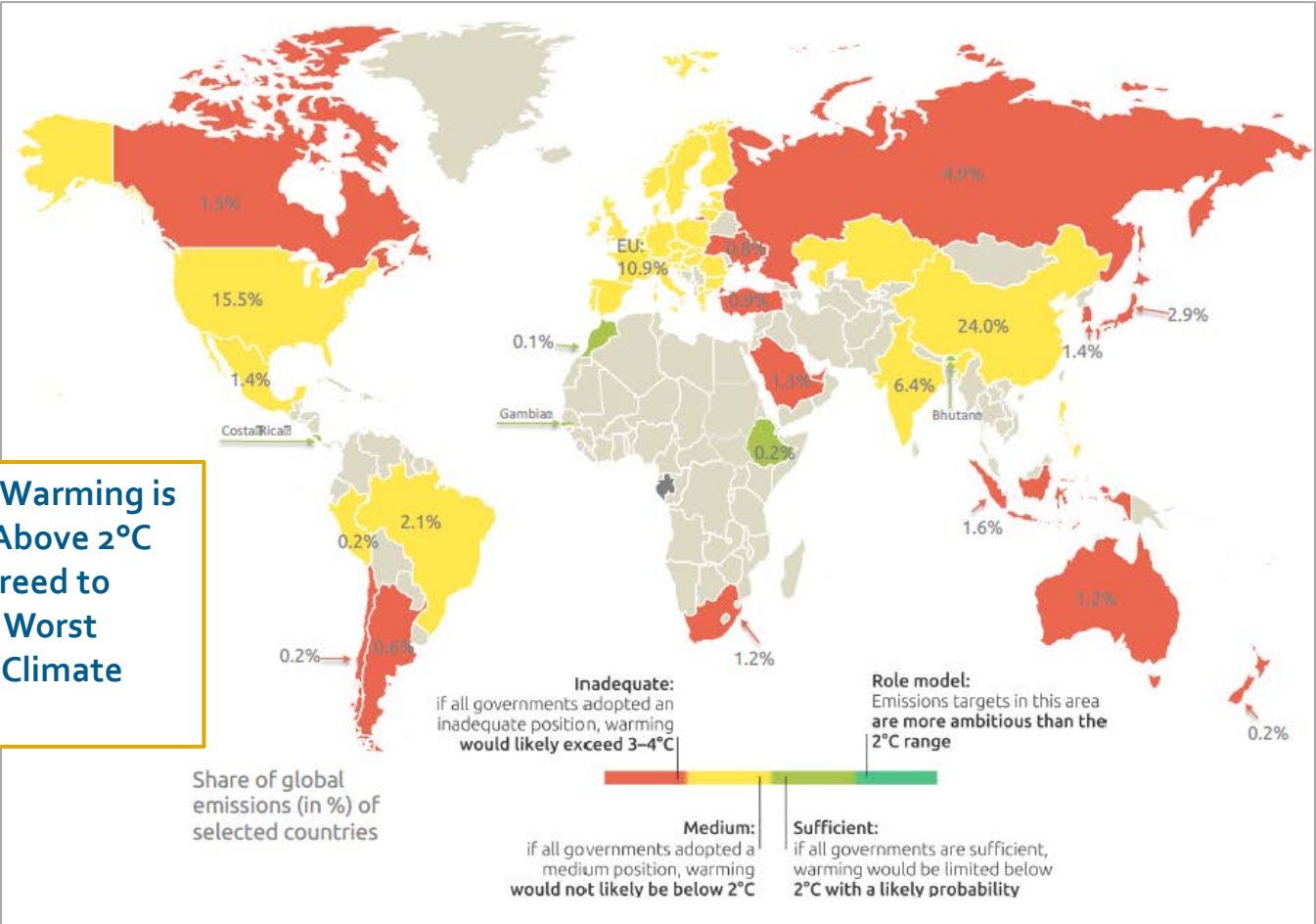
Potential for Even Further Regulation

Expected Temperature Rise by 2100
As of December 8, 2015



Expected Warming is Still Well Above 2°C Target Agreed to Avoid the Worst Effects of Climate Change

Climate Action Tracker Rating of INDC Submissions by Country
As of December 8, 2015



Developing a Climate-Aware Investment Strategy

“Know what you own”—assess portfolio exposure to fossil fuels and companies with large carbon reserves

ASSESS 01

Determine any limitations (e.g., commingled funds) that may limit implementation options

EVALUATE 02

Consider overall climate change and fossil fuel aware objectives

DEFINE 03

Integrate climate change and fossil fuel aware objectives with financial objectives through an investment plan or policy statement

IMPLEMENT 04

Source: Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy

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Climate Change and Fossil Fuel-Aware Investing Framework

OBJECTIVE

REDUCE CLIMATE RISK

INCREASE CLIMATE OPPORTUNITY

STRATEGIES

Fossil Fuel-Aware



Eliminate or reduce exposure to companies producing coal, oil, and nuclear energy or owning significant fossil fuel reserves

Environmental Leaders



Exposure to all sectors and industry groups including energy, but only in companies that reflect the best environmental practices relative to industry peers

Thematic Opportunities



Focus on investable themes that seek to improve climate change mitigation and/or adaptation solutions

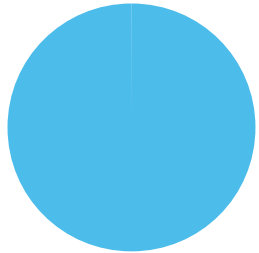
Shareholder Engagement

Drive positive environmental change through active dialogue with invested companies

Source: Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy

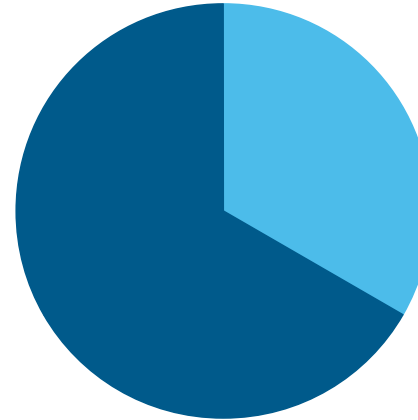
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Portfolio Construction



Total Portfolio Solution

Entire portfolio meets financial and climate change objectives; may limit diversification



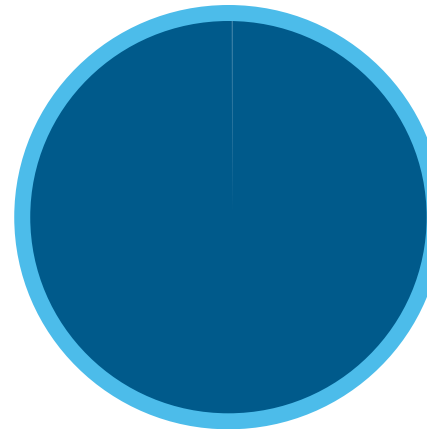
Partial Portfolio Solution

Opportunistically allocate to climate change objectives within the portfolio where they do not limit financial objectives



Carve-Out

Set aside a portion of assets to devote to climate change objectives



Restriction Screens

Apply restriction overlay screens to reduce exposure to fossil fuels (e.g., oil & gas)

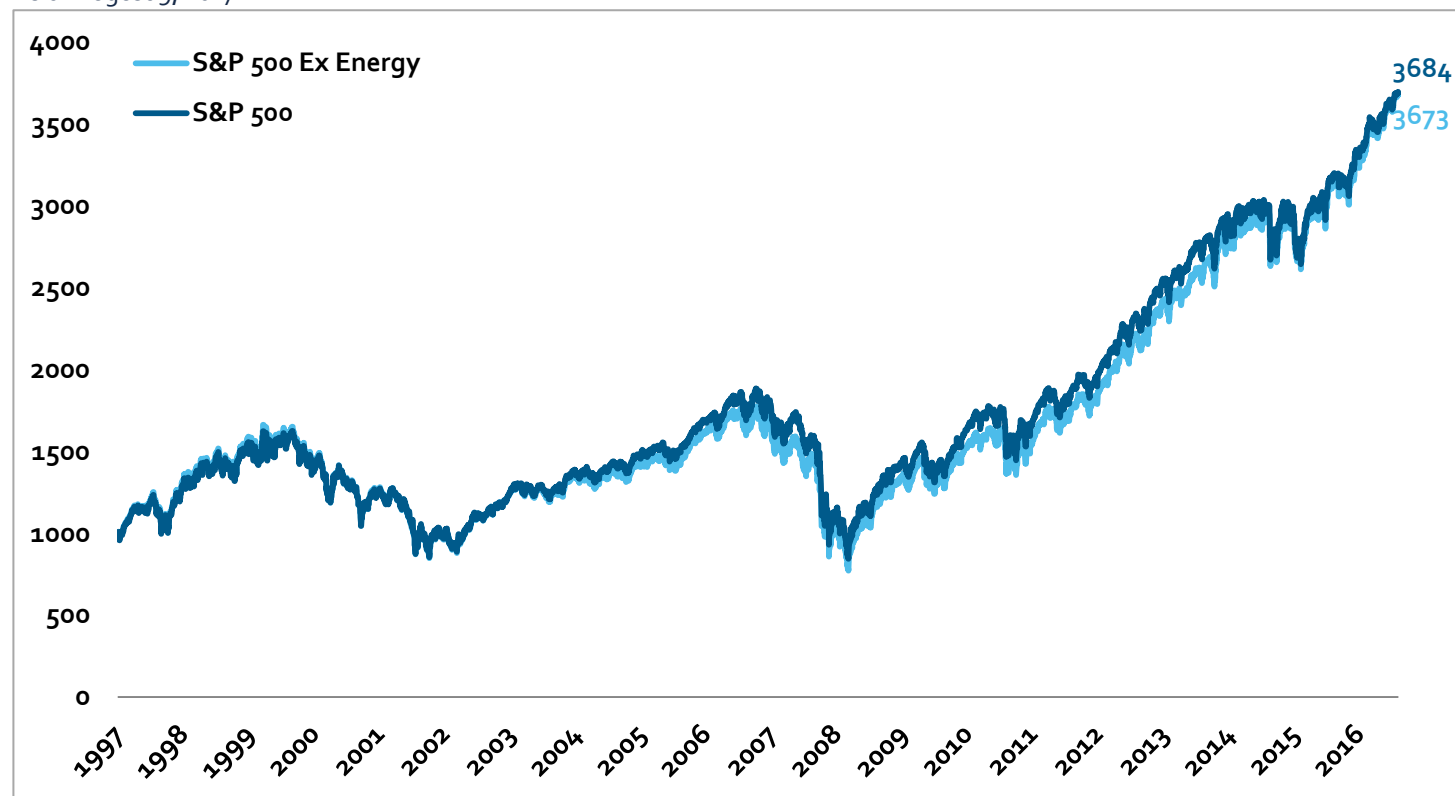
Source: Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy

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Divesting from Fossil Fuels

Cumulative Returns of \$1000 Invested in S&P 500 Index vs. S&P 500 Ex Energy

As of August 9, 2017



Annual Performance (%)

Year	S&P 500 Ex	
	Energy	S&P 500
2016	10.88	11.96
2015	3.44	1.38
2014	16.14	13.69
2013	33.29	32.39
2012	17.59	16.00
2011	1.75	2.11
2010	14.36	15.06
2009	28.36	26.46
2008	-37.29	-37.00
2007	2.30	5.49
2006	14.92	15.79
2005	2.88	4.91
2004	9.59	10.88
2003	28.88	28.68
2002	-22.83	-22.10
2001	-11.98	-11.89
2000	-10.46	-9.10
1999	21.20	21.04

Index Performance – Gross Returns (%)

	ANNUALIZED							
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	15 Yr
S&P 500 Ex Energy	2.20	4.16	17.30	13.84	12.88	15.80	8.32	9.13
S&P 500	2.16	3.69	15.85	11.86	10.91	14.43	7.77	9.12

Index Risk (%)

VOLATILITY			
3 Yr	5 Yr	10 Yr	15 Yr
10.32	9.59	15.60	14.29
10.17	9.54	15.42	14.09

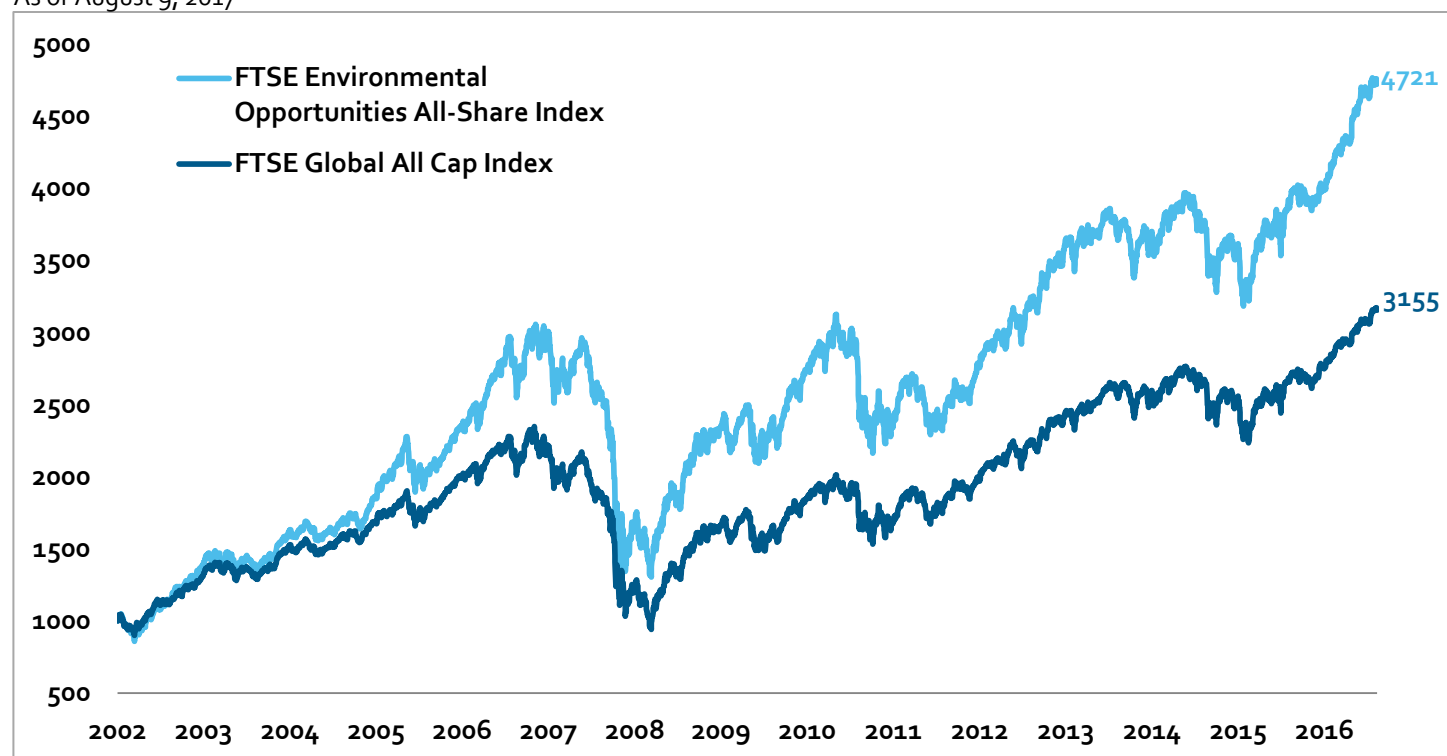
Source: Bloomberg, Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy. Charted performance is from December 31, 1997. Index performance is shown gross of fees and does not represent the performance of any specific investment. **Had the results reflected brokerage commissions, the performance would have been lower.**

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Investing in Environmental Leaders

Cumulative Returns of \$1000 Invested In FTSE Environmental Opportunities All-Share Index vs. FTSE Global All Cap Index

As of August 9, 2017



Annual Performance (%)

Year	FTSE Environmental	FTSE Global All
2016	11.42	8.80
2015	-1.92	-1.61
2014	-0.01	4.45
2013	31.29	23.55
2012	16.19	17.00
2011	-13.26	-8.87
2010	17.74	12.12
2009	37.44	33.72
2008	-43.50	-43.85
2007	26.55	9.99
2006	27.93	19.88
2005	13.16	9.55
2004	15.94	14.69
2003	40.87	33.32

Index Performance – Gross Returns (%)

	1 Mo	3 Mo	1 Yr	YTD	ANNUALIZED			
					3 Yr	5 Yr	10 Yr	Inception
FTSE Environmental Opp.	2.45	4.46	21.07	18.81	9.19	13.74	5.49	11.21
FTSE Global All Cap	3.31	4.81	17.69	14.97	7.48	11.25	3.97	8.18

Index Risk (%)

VOLATILITY		
3 Yr	5 Yr	10 Yr
11.96	11.20	20.05
10.82	10.00	17.63

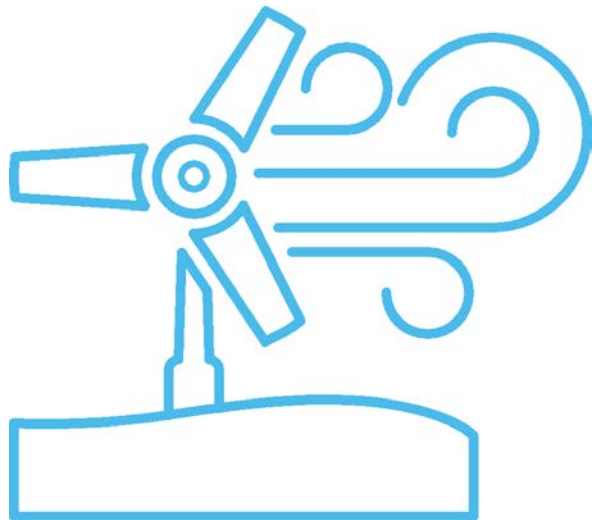
Source: Bloomberg, MSCI, Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy. Charted performance is from December 31, 2002. Index performance is shown gross of fees and does not represent the performance of any specific investment. **Had the results reflected brokerage commissions, the performance would have been lower.**

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Thematic Opportunities Framework

Supply Side: Lower Carbon Intensity of Energy Supply

1. Renewable Energy
2. Nuclear Power
3. Coal-to-gas Switching
4. Carbon Capture & Storage



Demand Side: Lower Energy Consumption

- A. Energy Storage
- B. Energy Efficiency & Conservation
- C. Alternative Fuel Vehicles



Source: Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy

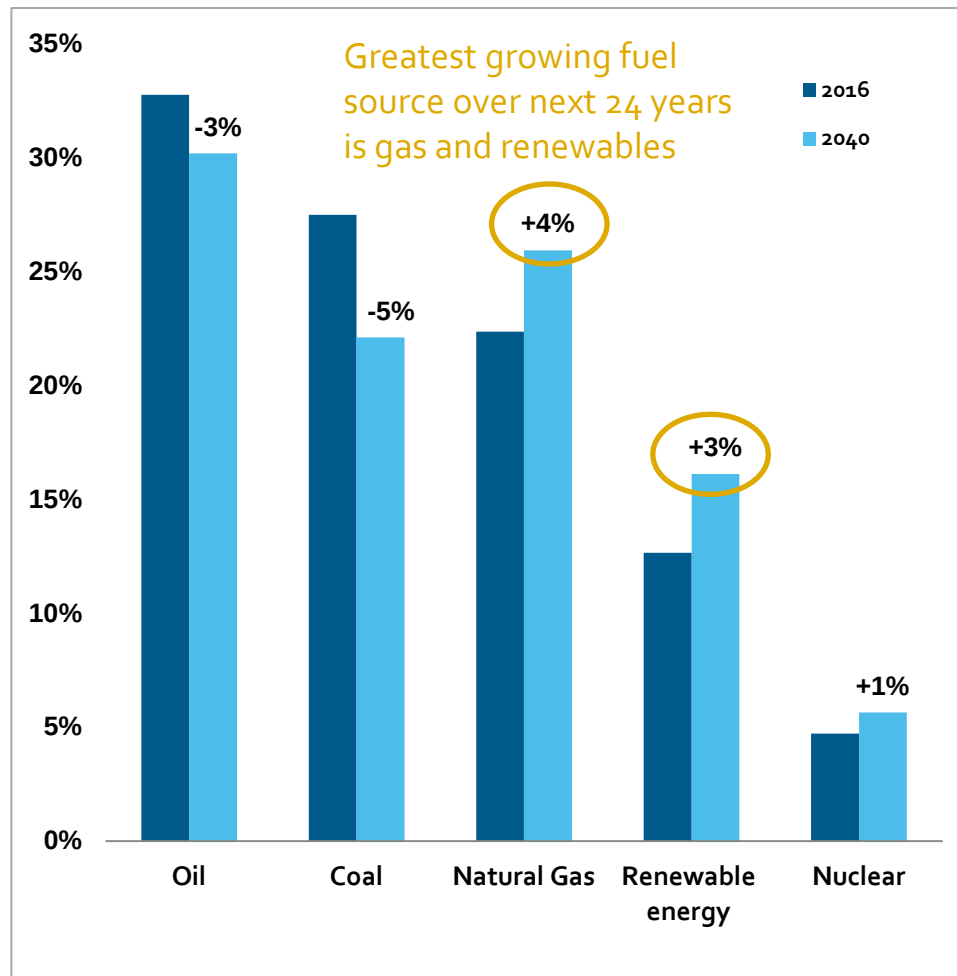
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Thematic Opportunity: Carbon Intensity of Energy Supply

Consider renewable energy, coal-to-gas switching, and nuclear power

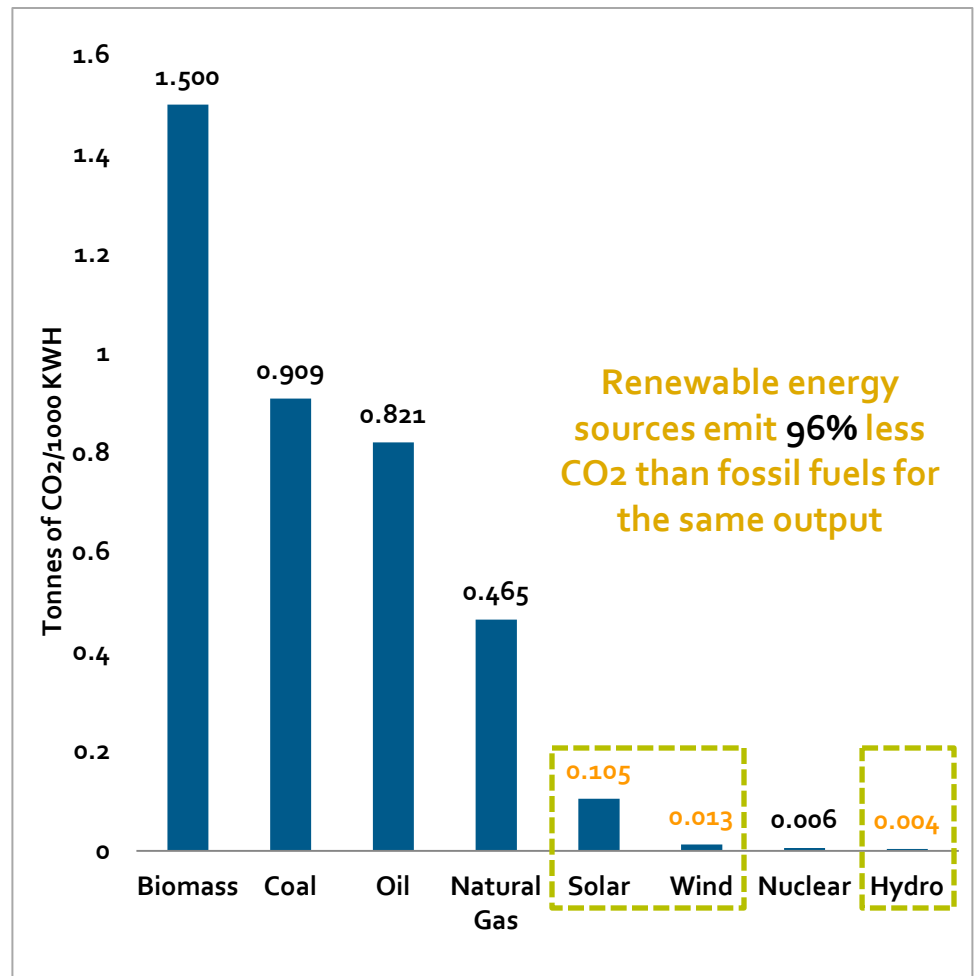
Global Energy Consumption by Fuel Source: 2016 vs. 2040 Projected

As of December 31, 2013



Carbon Intensity of Energy Sources

As of May 11, 2016



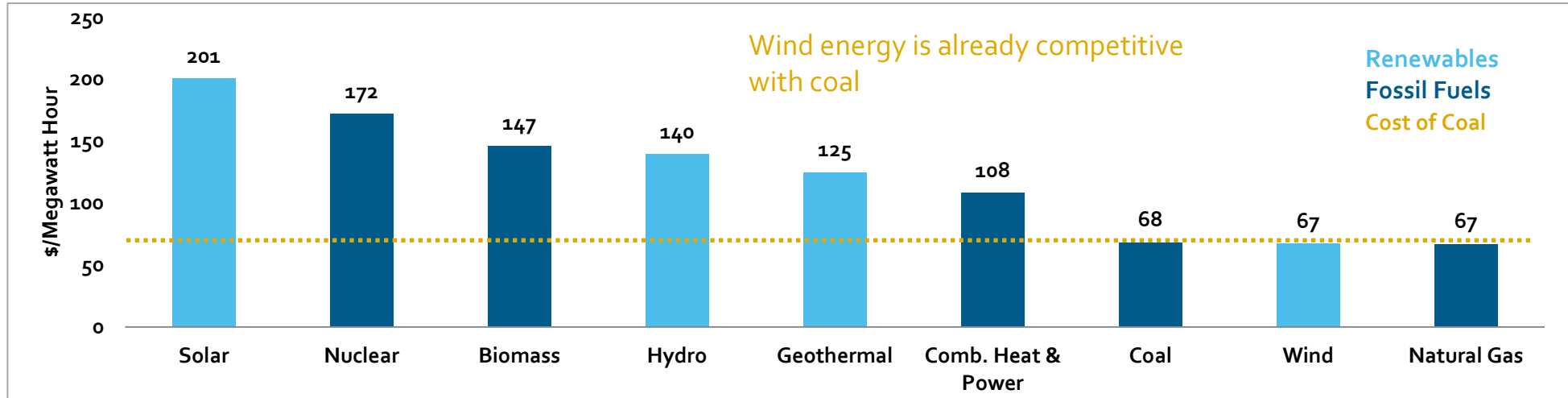
Source: Bloomberg. U.S. Energy Information Administration's *International Energy Outlook 2016*, BlueSkyModel, Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy

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Renewables Are Becoming Increasingly Cost Effective

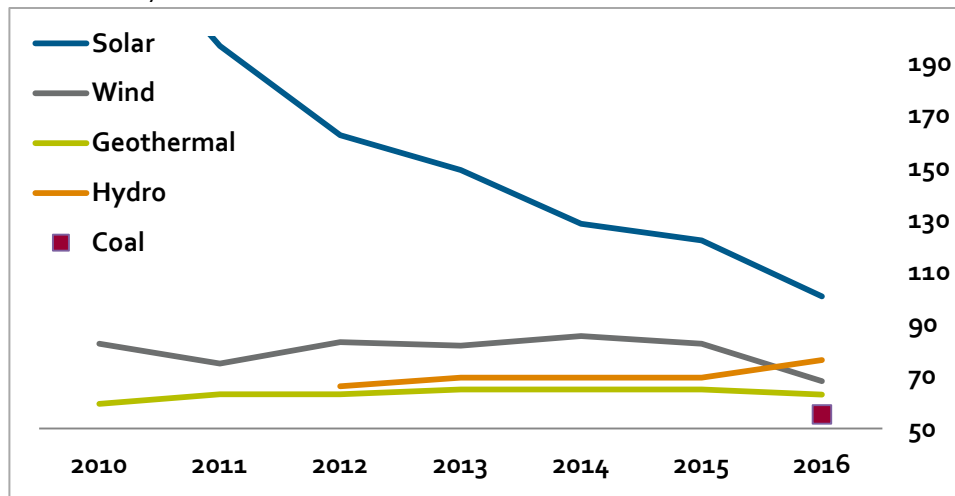
Levelized Cost of Energy (LCOE)

As of 2Q17



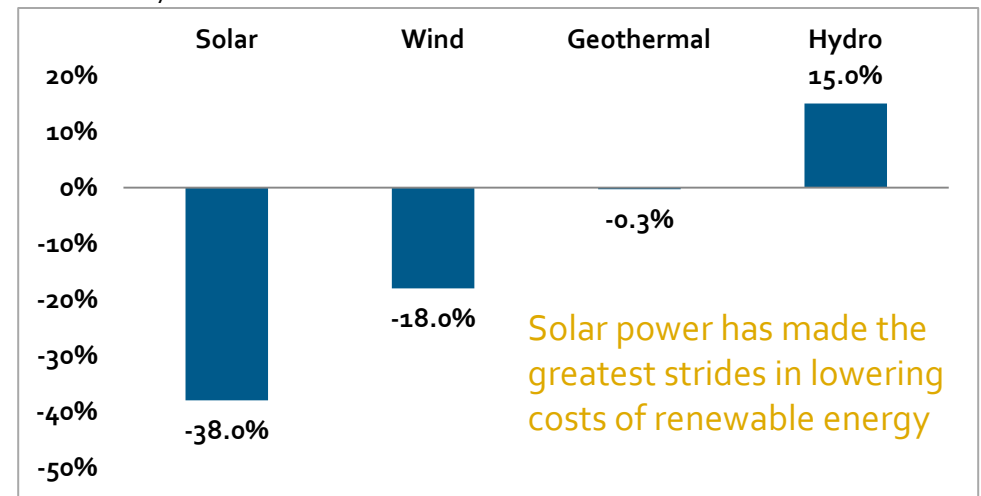
LCOE for Renewables Since 2010

As of 2Q 2017



Percent Decrease in Renewable LCOE 2012-2016

As of 2Q 2017



Source: Bloomberg, Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy.

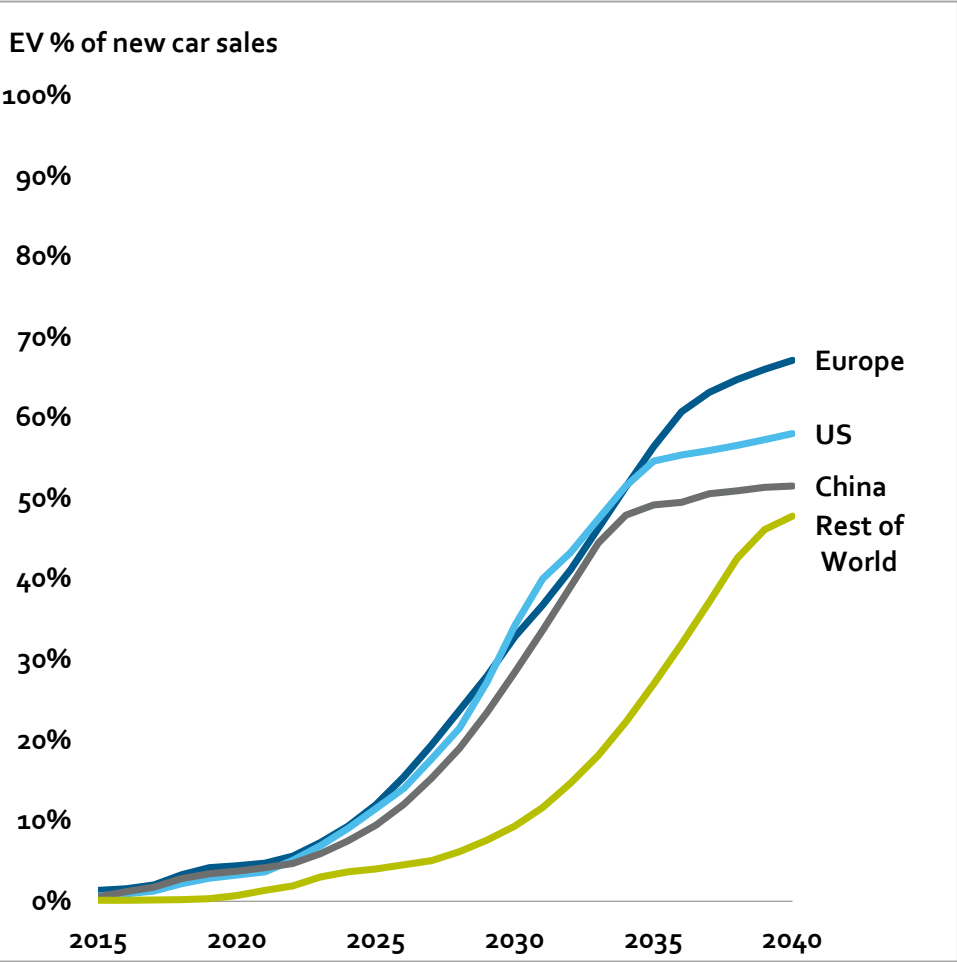
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Thematic Opportunity: Reducing Energy Demand

Consider alternative fuel vehicles

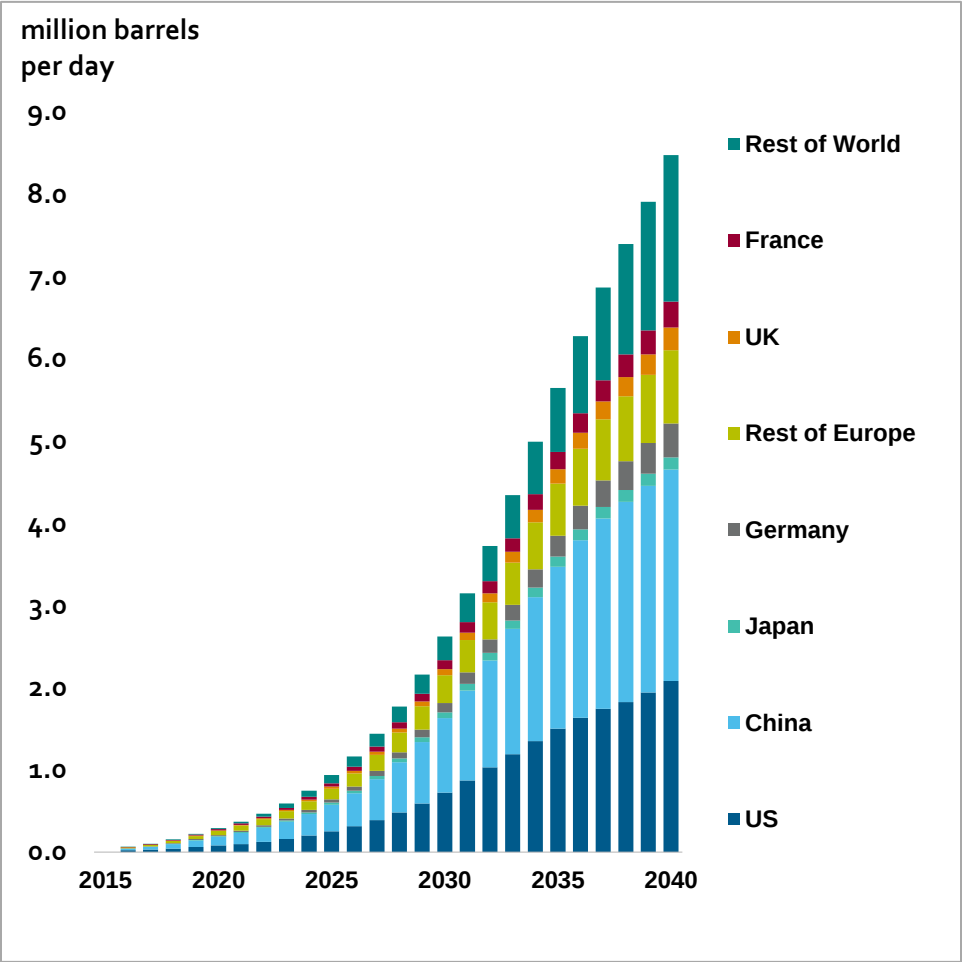
Electric Vehicles Projected to Accelerate Market Share Starting 2018

As of July 6, 2017



And Displace 8.5 Million Barrels of Oil a Day by 2040

As of July 6, 2017

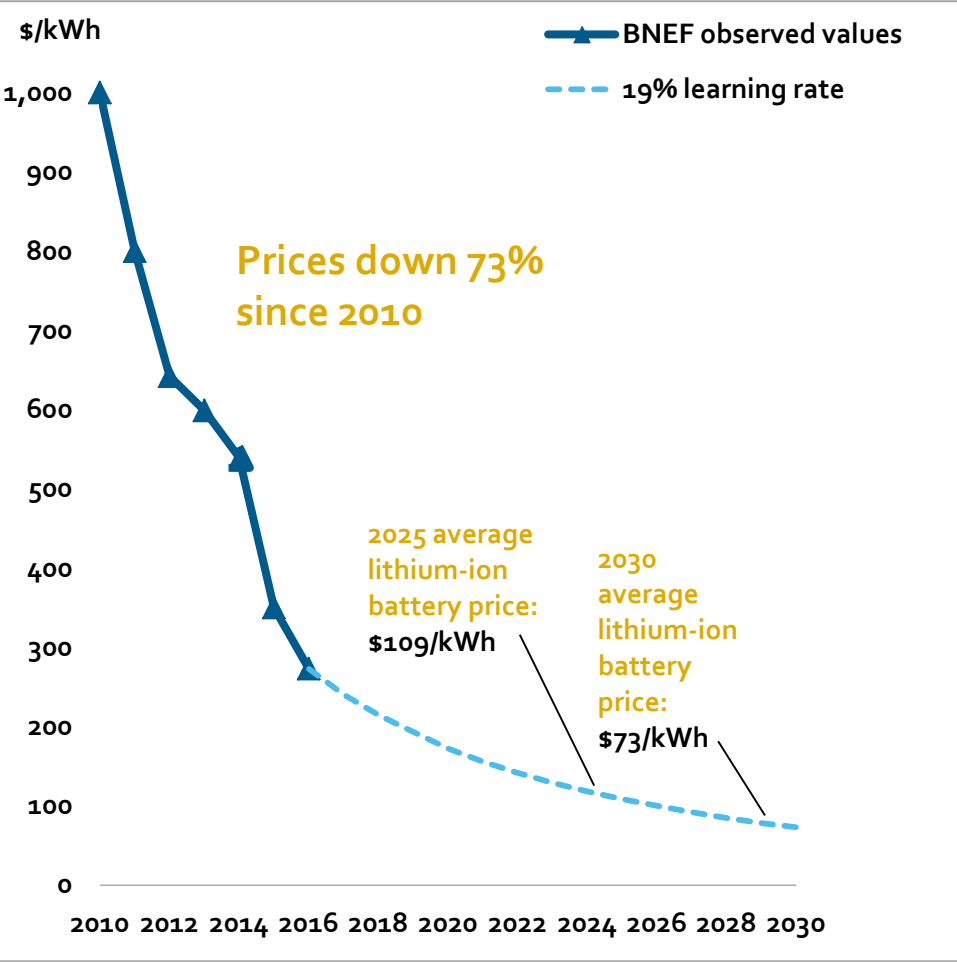


Source: Bloomberg New Energy Finance, Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy, Energy Information Administration's Alternative Fuel Vehicle Data. Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material.

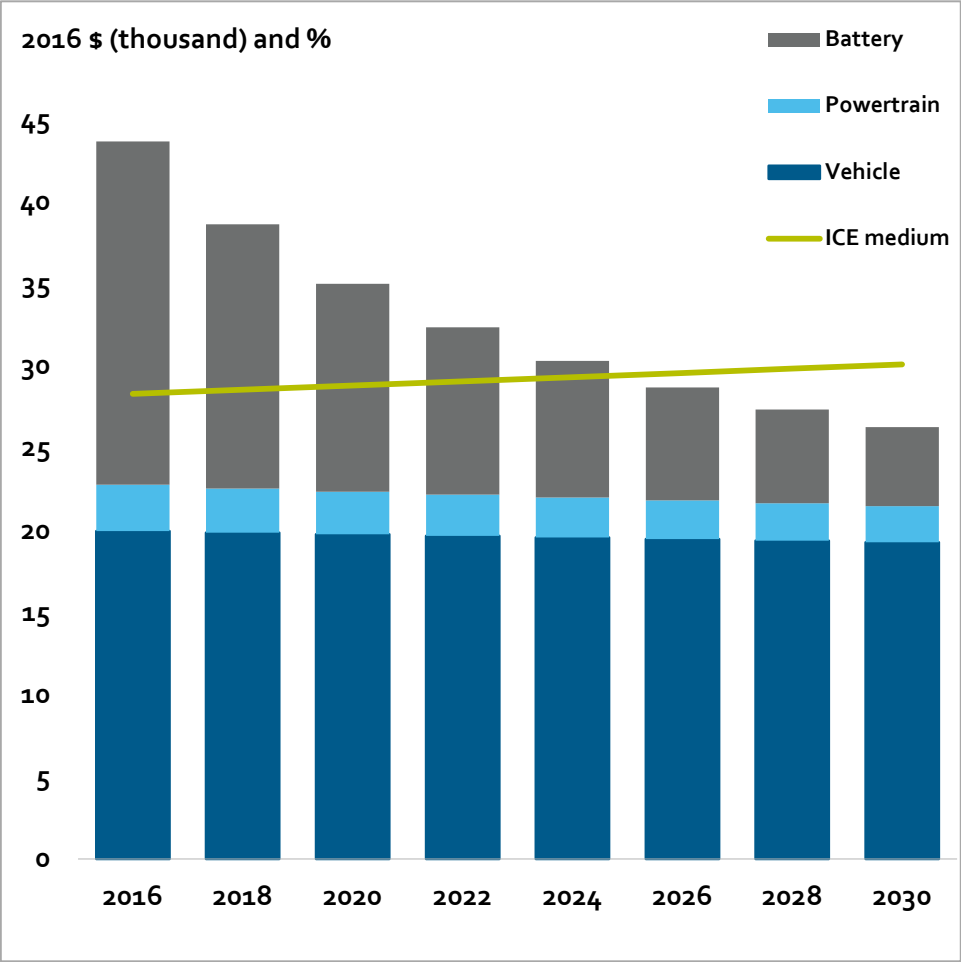
Thematic Opportunity: Reducing Energy Demand

Consider energy storage

Lithium-ion Battery Prices are Declining
As of July 6, 2017



Bringing the Pre-Tax Cost for Electric Vehicles below Internal Combustion Engine Vehicles by 2026
As of July 6, 2017



Source: Bloomberg New Energy Finance. Morgan Stanley Wealth Management Investment Resources Sustainable Impact Strategy.
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Climate Change Terminology

Alternative Energy: Energy derived from nontraditional sources (e.g., compressed natural gas, solar, hydroelectric, wind).

Carbon Footprint: The total amount of greenhouse gases that are emitted into the atmosphere each year by a person, family, building, organization, or company.

Climate Adaptation: Adjustment of preparation of natural or human systems to a new or changing environment which moderates harm or exploits beneficial opportunities.

Climate Change: Climate change refers to any significant change in the measures of climate lasting for an extended period of time; this includes major changes in weather such as temperature, precipitation, wind patterns, and more.

Emissions: The release of a substance (usually a gas when referring to the subject of climate change) into the atmosphere.

Fossil Fuel: A general term for organic materials formed from decayed plants and animals that have been converted to crude oil, coal, natural gas, or heavy oils by exposure to heat and pressure in the Earth's crust over hundreds of millions of years.

Global Warming: The recent and ongoing global average increase in temperature near the Earth's surface.

Greenhouse Gas (GHG): Any gas that absorbs infrared radiation in the atmosphere. Greenhouse gases include carbon dioxide, methane, nitrous oxide, ozone, chlorofluorocarbons, hydrofluorocarbons, perfluorocarbons, sulfur hexafluoride.

Renewable Energy: Energy resources that are naturally replenishing such as biomass, hydro, geothermal, solar, wind, ocean thermal, wave action, and tidal action.

Levelized Cost of Energy (LCOE): Allows different energy generation technologies to be compared, taking into account their cost of production, financing, and generation efficiency. LCOE is defined as the dollar per megawatt hour (\$/MWh) of building and operating a generating plant over the life time of its usage. Specifically, it is the price for an inflation-adjusted, fixed-price power off-take agreement that, taking into account all project-specific costs, offers the sponsor and/or project developer the minimum equity return necessary to undertake the project.

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Strategy May Be Available as a Separately Managed Account or Mutual Fund Strategies are sometimes available in Morgan Stanley Wealth Management investment advisory programs both in the form of a separately managed account ("SMA") and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor or Private Wealth Advisor can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program. In most Morgan Stanley Wealth Management investment advisory accounts, fees are deducted quarterly and have a compounding effect on performance. For example, on an advisory account with a 3% annual fee, if the gross annual performance is 6.00%, the compounding effect of the fees will result in a net performance of approximately 3.93% after one year, 1 after three years, and 21.23% after five years. **Conflicts of Interest:** GIMA's goal is to provide professional, objective evaluations in support of the Morgan Stanley Wealth Management investment advisory programs. We have policies and procedures to help us meet this goal. However, our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by GIMA come from a variety of sources, including our Morgan Stanley Wealth Management Financial Advisors and their direct or indirect managers, and other business persons within Morgan Stanley Wealth Management or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, Morgan Stanley Wealth Management or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds. For example, a Financial Advisor may suggest that GIMA evaluates an investment manager or fund in which a portion of his or her clients' assets are already invested. While such a recommendation is permissible, GIMA is responsible for the opinions expressed by GIMA. See the conflicts of interest section in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management for a discussion of other types of conflicts that may be relevant to GIMA's evaluation of managers and funds. In addition, Morgan Stanley Wealth Management, MS & Co., managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking

services) for each other and 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 managers in various advisory programs. Morgan Stanley Wealth Management, managers, MS & Co., and their affiliates receive compensation and fees in connection with these services. Morgan Stanley Wealth Management believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account.

Consider Your Own Investment Needs: The model portfolios and strategies discussed in the material are formulated based on general client characteristics including risk tolerance. This material is not intended to be a client-specific suitability analysis or recommendation, or offer to participate in any investment. Therefore, clients should not use this profile as the sole basis for investment decisions. They should consider all relevant information, including their existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. Such a suitability determination may lead to asset allocation results that are materially different from the asset allocation shown in this profile. Talk to your Financial Advisor about what would be a suitable asset allocation for you, whether CGCM is a suitable program for you.

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Please consider the investment objectives, risks, fees, and charges and expenses of mutual funds, ETFs, closed end funds, unit investment trusts, and variable insurance products carefully before investing. The prospectus contains this and other information about each fund. To obtain a prospectus, contact your Financial Advisor or Private Wealth Advisor or visit the Morgan Stanley website at www.morganstanley.com. Please read it carefully before investing.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

The type of mutual funds and ETFs discussed in this presentation utilizes nontraditional or complex investment strategies and/or derivatives. Examples of these types of funds include those that utilize one or more of the below noted investment strategies or categories or which seek exposure to the following markets: (1) commodities (e.g., agricultural, energy and metals), currency, precious metals; (2) managed futures; (3) leveraged, inverse or inverse leveraged; (4) bear market, hedging, long-short equity, market neutral; (5) real estate; (6) volatility (seeking exposure to the CBOE VIX Index). Investors should keep in mind that while mutual funds and ETFs may, at times, utilize nontraditional investment options and strategies, they should not be equated with unregistered privately offered alternative investments. Because of regulatory limitations, mutual funds and ETFs that seek alternative-like investment exposure must utilize a more limited investment universe. As a result, investment returns and portfolio characteristics of alternative mutual funds and ETFs may vary from traditional hedge funds pursuing similar investment objectives. 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 and ETFs trade on an exchange. On the other hand, mutual funds typically must meet daily client redemptions. This differing liquidity profile can have a material impact on the investment returns generated by a mutual or 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 a fund’s investment objective and to help offset market risks. However, these features may be complex, making it more difficult to understand the fund’s essential characteristics and risks, and how it will perform in different market environments and over various periods of time. They may also expose the fund to increased volatility and unanticipated risks particularly when used in complex combinations and/or accompanied by the use of borrowing or “leverage.”

KEY ASSET CLASS CONSIDERATIONS AND OTHER RISKS

Investing in the markets entails the risk of market volatility. The value of all types of investments, including stocks, mutual funds, exchange-traded funds (“ETFs”), closed-end funds, and unit investment trusts, may increase or decrease over varying time periods. To the extent the investments depicted herein represent **international securities**, you should be aware that there may be additional risks associated with international investing, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards. These risks may be magnified in **emerging markets and frontier markets**. **Small- and mid-capitalization companies** may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of small- and mid-capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies. The value of **fixed income securities** will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer. **High yield bonds** are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. In the case of **municipal bonds**, income is generally exempt from federal income taxes. Some income may be subject to state and local taxes and to the federal alternative minimum tax. Capital gains, if any, are subject to tax. **Treasury Inflation Protection Securities’ (TIPS)** coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation. There is no guarantee that investors will receive par if TIPS are sold prior to maturity. The returns on a portfolio consisting primarily of **environmental, social, and governance-aware investments (“ESG”)** may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because ESG criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. The companies identified and investment examples are for illustrative purposes only and should not be deemed a recommendation to purchase, hold or sell any securities or investment products. They are intended to demonstrate the approaches taken by managers who focus on ESG criteria in their investment strategy. There can be no guarantee that a client's account will be managed as described herein. **Options** and margin trading involve substantial risk and are not suitable for all investors. Besides the general investment risk of holding securities that may decline in value and the possible loss of principal invested, **closed-end funds** may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance and potential leverage. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open

market through a stock exchange. NAV is total assets less total liabilities divided by the number of shares outstanding. At the time an investor purchases shares of a closed-end fund, shares may have a market price that is above or below NAV. Portfolios that invest a large percentage of assets in only one industry **sector** (or in only a few sectors) are more vulnerable to price fluctuation than those that diversify among a broad range of sectors. **Alternative investments** often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are suitable only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing. Certain of these risks may include but are not limited to: Loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; Lack of liquidity in that there may be no secondary market for a fund; Volatility of returns; Restrictions on transferring interests in a fund; Potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; Absence of information regarding valuations and pricing; Complex tax structures and delays in tax reporting; Less regulation and higher fees than mutual funds; and Risks associated with the operations, personnel, and processes of the manager. As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication, and other activities. In the ordinary course of its business, Morgan Stanley Wealth Management therefore engages in activities where Morgan Stanley Wealth Management's interests may conflict with the interests of its clients, including the private investment funds it manages. Morgan Stanley Wealth Management can give no assurance that conflicts of interest will be resolved in favor of its clients or any such fund. All expressions of opinion are subject to change without notice and are not intended to be a forecast of future events or results. Further, opinions regarding Alternative Investments expressed herein may differ from the opinions expressed by Morgan Stanley Wealth Management and/or other businesses/affiliates of Morgan Stanley Wealth Management. This is not a "research report" as defined by NASD Conduct Rule 2711 and was not prepared by the Research Departments of Morgan Stanley Smith Barney LLC or Morgan Stanley & Co. LLC or its affiliates. Certain information contained herein may constitute forward-looking statements. Due to various risks and uncertainties, actual events, results or the performance of a fund may differ materially from those reflected or contemplated in such forward-looking statements. Clients should carefully consider the investment objectives, risks, charges, and expenses of a fund before investing. While the HFRI indices are frequently used, they have limitations (some of which are typical of other widely used indices). These limitations include survivorship bias (the returns of the indices may not be representative of all the hedge funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and the index may omit funds, the inclusion of which might significantly affect the performance shown). The HFRI indices are based on information self-reported by hedge fund managers that decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways. Composite index results are shown for illustrative purposes and do not represent the performance of a specific investment. Individual funds have specific tax risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice. Interests in alternative investment products are offered pursuant to the terms of the applicable offering memorandum, are distributed by Morgan Stanley Smith Barney LLC and certain of its affiliates, and (1) are not FDIC-insured, (2) are not deposits or other obligations of Morgan Stanley or any of its affiliates, (3) are not guaranteed by Morgan Stanley and its affiliates, and (4) involve investment risks, including possible loss of principal. Morgan Stanley Smith Barney LLC is a registered broker-dealer, not a bank. 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As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication, and other activities. In the ordinary course of its business, Morgan Stanley Wealth Management therefore engages in activities where Morgan Stanley Wealth Management's interests may conflict with the interests of its clients, including the private investment funds it manages. Morgan Stanley Wealth Management can give no assurance that conflicts of interest will be resolved in favor of its clients or any such fund. Alternative investments involve complex tax structures, tax inefficient investing, and delays in distributing important tax information. Individual funds have specific risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice.

While the HFRI indices are frequently used, they have limitations (some of which are typical of other widely used indices). These limitations include survivorship bias (the returns of the indices may not be representative of all the hedge funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one

another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and the index may omit funds, the inclusion of which might significantly affect the performance shown. The HFRI indices are based on information self-reported by hedge fund managers that decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways.

It should be noted that the majority of hedge fund indexes are comprised of hedge fund manager returns. This is in contrast to traditional indexes, which are comprised of individual securities in the various market segments they represent and offer complete transparency as to membership and construction methodology. As such, some believe that hedge fund index returns have certain biases that are not present in traditional indexes. Some of these biases inflate index performance, while others may skew performance negatively. However, many studies indicate that overall hedge fund index performance has been biased to the upside. Some studies suggest performance has been inflated by up to 260 basis points or more annually depending on the types of biases included and the time period studied. Although there are numerous potential biases that could affect hedge fund returns, we identify some of the more common ones throughout this paper. Self-selection bias results when certain manager returns are not included in the index returns and may result in performance being skewed up or down. Because hedge funds are private placements, hedge fund managers are able to decide which fund returns they want to report and are able to opt out of reporting to the various databases. Certain hedge fund managers may choose only to report returns for funds with strong returns and opt out of reporting returns for weak performers. Other hedge funds that close may decide to stop reporting in order to retain secrecy, which may cause a downward bias in returns. Survivorship bias results when certain constituents are removed from an index. This often results from the closure of funds due to poor performance, “blow ups,” or other such events. As such, this bias typically results in performance being skewed higher. As noted, hedge fund index performance biases can result in positive or negative skew. However, it would appear that the skew is more often positive. While it is difficult to quantify the effects precisely, investors should be aware that idiosyncratic factors may be giving hedge fund index returns an artificial “lift” or upwards bias.

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

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

This material is not a financial plan and does not create an investment advisory relationship between you and your Morgan Stanley Financial Advisor. We are not your fiduciary either under the Employee Retirement Income Security Act of 1974 (ERISA) or the Internal Revenue Code of 1986, and any information in this report is not intended to form the primary basis for any investment decision by you, or an investment advice or recommendation for either ERISA or Internal Revenue Code purposes. Morgan Stanley Private Wealth Management will only prepare a financial plan at your specific request using Private Wealth Management approved financial planning signature.

We may act in the capacity of a broker or that of an advisor. As your broker, we are not your fiduciary and our interests may not always be identical to yours. Please consult with your Private Wealth Advisor to discuss our obligations to disclose to you any conflicts we may from time to time have and our duty to act in your best interest. We may be paid both by you and by others who compensate us based on what you buy. Our compensation, including that of your Private Wealth Advisor, may vary by product and over time.

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For index, indicator and survey definitions referenced in this report please visit the following: <http://www.morganstanleyfa.com/public/projectfiles/id.pdf>

Global Investment Committee (GIC) Asset Allocation Models: The Asset Allocation Models are created by Morgan Stanley Wealth Management's GIC. **HYPOTHETICAL MODEL PERFORMANCE (GROSS):** Hypothetical model performance results do not reflect the investment or performance of an actual portfolio following a GIC Strategy, but simply reflect actual historical performance of selected indices on a real-time basis over the specified period of time representing the GIC's strategic and tactical allocations as of the date of this report. The past performance shown here is simulated performance based on benchmark indices, not investment results from an actual portfolio or actual trading. There can be large differences between hypothetical and actual performance results achieved by a particular asset allocation or trading strategy. Hypothetical performance results do not represent actual trading and are generally designed with the benefit of hindsight. Actual performance results of accounts vary due to, for example, market factors (such as liquidity) and client-specific factors (such as investment vehicle selection, timing of contributions and withdrawals, restrictions and rebalancing schedules). Clients would not necessarily have obtained the performance results shown here if they had invested in accordance with any GIC Asset Allocation Model for the periods indicated. Despite the limitations of hypothetical performance, these hypothetical performance results allow clients and Financial Advisors to obtain a sense of the risk/return trade-off of different asset allocation constructs. The hypothetical performance results in this report are calculated using the returns of benchmark indices for the asset classes, and not the returns of securities, fund or other investment products. Models may contain allocations to Hedge Funds, Private Equity and Private Real Estate. The benchmark indices for these asset classes are not issued on a daily basis. When calculating model performance on a day for which no benchmark index data is issued, we have assumed straight line growth between the index levels issued before and after that date. **FEES REDUCE THE PERFORMANCE OF ACTUAL ACCOUNTS:** None of the fees or other expenses (e.g. commissions, mark-ups, mark-downs, fees) associated with actual trading or accounts are reflected in the GIC Asset Allocation Models. The GIC Asset Allocation Models and any model performance included in this presentation are intended as educational materials. Were a client to use these models in connection with investing, any investment decisions made would be subject to transaction and other costs which, when compounded over a period of years, would decrease returns. Information regarding Morgan Stanley's standard advisory fees is available in the Form ADV Part 2, which is available at www.morganstanley.com/adv. The following hypothetical illustrates the compound effect fees have on investment returns: For example, if a portfolio's annual rate of return is 15% for 5 years and the account pays 50 basis points in fees per annum, the gross cumulative five-year return would be 101.1% and the five-year return net of fees would be 96.8%. Fees and/or expenses would apply to clients who invest in investments in an account based on these asset allocations, and would reduce clients' returns. The impact of fees and/or expenses can be material. **Insurance products disclosures:** **Variable annuities** are long-term investments designed for retirement purposes and may be subject to market fluctuations, investment risk, and possible loss of principal. All guarantees, including optional benefits, are based on the financial strength and claims-paying ability of the issuing insurance company and do not apply to the underlying investment options. Optional riders may not be able to be purchased in combination and are available at an additional cost. Some optional riders must be elected at time of purchase. Optional riders may be subject to specific limitations, restrictions, holding periods, costs, and expenses as specified by the insurance company in the annuity contract. If you are investing in a **variable annuity** through a tax-advantaged retirement plan such as an IRA, you will get no additional tax advantage from the variable annuity. Under these circumstances, you should only consider buying a variable annuity because of its other features, such as lifetime income payments and death benefits protection. Taxable distributions (and certain deemed distributions) are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal income tax penalty. Early withdrawals will reduce the death benefit and cash surrender value. **Equity securities** may fluctuate in response to news on companies, industries, market conditions and general economic environment. **Ultrashort-term fixed income** asset class is comprised of fixed income securities with high quality, very short maturities. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk. **Master Limited Partnerships (MLPs):** Individual MLPs are publicly traded partnerships that have unique risks related to their structure. These include, but are not limited to, their reliance on the capital markets to fund growth, adverse ruling on the current tax treatment of distributions (typically mostly tax deferred), and commodity volume risk. The potential tax benefits from investing in MLPs depend on their being treated as partnerships for federal income tax purposes and, if the MLP is deemed to be a corporation, then its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distribution to the fund which could result in a reduction of the fund's value. MLPs carry interest rate risk and may underperform in a rising interest rate environment. **Investing in commodities** entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention. **Physical precious metals** are non-regulated products. Precious metals are speculative investments, which may experience short-term and long term price volatility. The value of precious metals investments may fluctuate and may appreciate or decline, depending on market conditions. Unlike bonds and stocks, precious metals do not make interest or dividend payments. Therefore, precious metals may not be suitable for investors who require current income. Precious metals are commodities that should be safely stored, which may impose additional costs on the investor. **REITs** investing risks are similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions. Risks of **private real estate** include: illiquidity; a long-term investment horizon with a limited or nonexistent secondary market; lack of transparency; volatility (risk of loss); and leverage. Principal is returned on a monthly basis over the life of a **mortgage-backed security**. Principal prepayment can significantly affect the monthly income stream and the maturity of any type of MBS, including standard MBS, CMOs and Lottery Bonds. **Asset-backed securities** generally decrease in value as a result of interest rate increases, but may benefit less than other fixed-income securities from declining interest rates, principally

because of prepayments. **Yields** are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision. **Credit ratings** are subject to change. The majority of \$25 and \$1000 par **preferred securities** are “callable” meaning that the issuer may retire the securities at specific prices and dates prior to maturity. Interest/dividend payments on certain preferred issues may be deferred by the issuer for periods of up to 5 to 10 years, depending on the particular issue. The investor would still have income tax liability even though payments would not have been received. Price quoted is per \$25 or \$1,000 share, unless otherwise specified. Current yield is calculated by multiplying the coupon by par value divided by the market price. The initial interest rate on a **floating-rate security** may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in the floating security’s underlying reference rate. The reference rate could be an index or an interest rate. However, there can be no assurance that the reference rate will increase. Some floating-rate securities may be subject to call risk. The market value of **convertible bonds** and the underlying common stock(s) will fluctuate and after purchase may be worth more or less than original cost. If sold prior to maturity, investors may receive more or less than their original purchase price or maturity value, depending on market conditions. Callable bonds may be redeemed by the issuer prior to maturity. Additional call features may exist that could affect yield. Some \$25 or \$1000 **par preferred securities** are QDI (Qualified Dividend Income) eligible. Information on QDI eligibility is obtained from third party sources. The dividend income on QDI eligible preferreds qualifies for a reduced tax rate. Many traditional ‘dividend paying’ perpetual preferred securities (traditional preferreds with no maturity date) are QDI eligible. In order to qualify for the preferential tax treatment all qualifying preferred securities must be held by investors for a minimum period – 91 days during a 180 day window period, beginning 90 days before the ex-dividend date. Companies paying **dividends** can reduce or cut payouts at any time. **Nondiversification**: For a portfolio that holds a concentrated or limited number of securities, a decline in the value of these investments would cause the portfolio’s overall value to decline to a greater degree than a less concentrated portfolio. The **indices selected by Morgan Stanley Wealth Management** to measure performance are representative of broad asset classes. Morgan Stanley Wealth Management retains the right to change representative indices at any time. Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies. **Growth investing** does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations. **Value investing** does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected. Any type of **continuous or periodic investment plan** does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low price levels. **Duration**, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates. This material is disseminated in the United States of America by Morgan Stanley Smith Barney LLC. Morgan Stanley Wealth Management is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the “Municipal Advisor Rule”) and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule. This material, or any portion thereof, may not be reprinted, sold or redistributed without the written consent of Morgan Stanley Smith Barney LLC. © 2017 Morgan Stanley Smith Barney LLC. Member SIPC.