Connors Investors Services Covered Call Strategy

APPROVED LIST RESEARCH REPORT

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STRATEGY DETAILS

INVESTMENT STYLE:	*Options Overlay*
BENCHMARK:	*S&P 500 Index*
CG IAR RESEARCH STATUS:	*Approved List*
PRODUCT TYPE:	*Separately Managed Account*
TICKER SYMBOL	*N/A*
SUB-ADVISOR	*N/A*

http://www.connorsinvestor.com

STRATEGY DESCRIPTION

The Covered Call Strategy seeks longer-term equity appreciation, with lower volatility and enhanced returns via covered call writing. Management uses fundamental research to build a large cap core equity portfolio, and then overlays the portfolio with covered calls to generate income and dampen portfolio volatility.

Summary of Opinion:

- Consulting Group Investment Advisor Research ("CG IAR") believes the Connors Investor Services' Covered Call Strategy may be appropriate for investors seeking long-term performance similar to the S&P 500 Index, with expected lower volatility and risk levels, as compared to the broader equity market.
- The Covered Call Strategy is a systematic program combining a portfolio of large cap, blue-chip stocks with an overlay of covered call options.
- Premiums received from written calls may provide an income stream and a buffer in down or flat equity markets. However, written calls may also limit upside, should the stock be called away if the price rises above the strike price of the option.
- CG IAR selected the S&P 500 Index as the appropriate benchmark, based on the higher correlation of returns to equity markets relative to other asset classes. However, given implied volatility has a material influence on returns, performance may at times deviate significantly from the underlying benchmark.

Positive Attributes

- Stable management team with equity and derivatives experience.
- Each account is managed individually in response to client income, capital growth needs, risk tolerance, and tax considerations.

Points to Consider

- This strategy employs a covered call strategy, seeking a risk/return profile between that of a bond and equity portfolio.
- The product is expected to enhance risk-adjusted returns by utilizing a covered call writing strategy.
- CG IAR expects the portfolio's performance to deviate from that of the designated benchmark S&P 500 Index, given implied volatility has a material influence on returns.

Areas of Concern

- CG IAR recognizes business risks common with boutique firms, especially equity concentrations and a smaller asset base. These concerns are somewhat mitigated by 2013 growth in firm assets under management to $522 million.
- The investment team is relatively thin, versus that of comparable portfolios covered by CG IAR.

News Summary

- 1Q14 – The firm changed the name of the strategy to the Covered Call Strategy from the previous name of the Hedged Equity Strategy. The firm believes this name better reflects the investment approach. The investment team and process remain unchanged.
- 2Q12 - Michael Noon, a Marketing and Business Development professional, joined the firm to augment distribution. Mr. Noon previously was a Senior Fiduciary Manager for the Pennsylvania-Delaware Regional Trust Center.

Additional Comments

- CG IAR anticipates outperformance when volatility is high and the underlying equity market performs well. Conversely, CG IAR expects the strategy to lag when implied volatility is low and the market declines slowly, as premiums received from the sale of calls are low and the underlying equity positions decline in value.
- Despite being a large cap core equity portfolio, fundamental research focuses on positive earnings growth, return on equity, and strong balance sheets, which provides the portfolio a moderate growth tilt. The portfolio is often overweight Consumer Discretionary, Industrials, and Financials.

Portfolio Traits

Equity/Options	
Range of Holdings	30 to 50
Maximum Position Size	5% (3% is typical)
Econ Sector Constraints	Typically, in at least eight of the ten S&P sectors. Sector weights range from 50% - 150% of the S&P 500 Index
Dispersion	Variations in holdings among accounts occur as a result of when the account was initiated, the premiums on the options when a position is initiated, and tax considerations
Typical duration of calls	Typically 2 – 6 months
Typical % out-of-money for calls	Typically 2% - 5%
Typical Annual Turnover	~30%
Invests in ADRs	No
Invests in ETFs	No
Invests in Derivatives	The portfolio will include writing covered calls, and may purchase put options for risk-averse clients.
Invests in IPOs	No
Liquidity Constraints	None
Maximum Cash	20% (1% to 7% is typical)
Source: Connors, CG IAR	

Investment Capabilities Overview

Portfolio Management Team

- The portfolio management team includes senior vice presidents and co-portfolio managers Robert Leayman and Robert Cagliola, and President Peter Connors.
- Messrs. Leayman and Cagliola are responsible for security and options selection, and day-to-day portfolio management. Both have experience in covered call strategies and have managed the strategy for 10+ years.
- Peter Connors provides general firm oversight, and participates in portfolio management.

Investment Philosophy & Process

- The Covered Call Strategy's investment process is stock selection driven, with a call option overlay for additional income and to reduce volatility. The process favors large cap, quality blue-chip stocks, generally companies with strong fundamentals and financial strength, positive earnings growth and high returns on equity. Depending on the client's needs or goals, holdings may include some smaller cap equities.
- In analyzing large cap stocks, the managers place a high degree of importance on earnings and stock price stability. Management screens the universe of stocks for S&P Ratings of A+, A, or A- and option writing capabilities. Candidate companies are monitored in relation to rising 200-day moving averages, and the process incorporates a review of ex-dividend dates, return on invested capital, and debt/capitalization ratios to estimate stock stability.
- Remaining candidate companies are ranked based on earnings and revenue growth, ROE, and the history of earnings stability.
- Options are written on the majority of stocks in the large cap portion of the portfolio. Management may decide not to write a call on a particular stock if there is significant upside, or if there is little option premium available.
  - Call options are written with strike prices that are slightly out-of-the-money (2%-5%), typically with maturities of 30 -120 days.
  - Expiring options are re-established at higher strike prices for stocks that have appreciated.
  - Existing positions are reviewed daily. As the underlying stocks move, management may buy back the options, capturing the premium, or roll up to new strike prices.
  - Management may also purchase put options for accounts that are particularly risk averse.
- The strategy incorporates an assessment of client cash flow requirements. The managers are aware that each asset allocation is based on individual risk tolerance, cash flow needs, and after-tax considerations. As such, the degree of options selling or small cap exposure depends upon individual client's objectives.

Other Key Items

Decision Making

- Messrs. Leayman and Cagliola are the primary decision-makers for the strategy.

Sell Process

- Equity positions may be sold for deteriorating fundamentals, sentiment or sponsorship changes, alteration of the initial investment thesis, or ethical concerns.
- A closing buy of written calls may result from a desire to keep the stock from being called away, a way to capture gains, or for tax reasons.

Track Record Reliability

- CG IAR views track record reliability as high given tenured management and consistent implementation of process.
- However, investors should be aware that there is likely to be dispersion among account holdings, as a result of when the account was initiated, the premiums on the options when a position is initiated, and tax considerations.

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Robert Leayman	Senior Vice President	Portfolio Management	●		1980	1985	1985
Robert Cagliola	Vice President	Portfolio Management	●	MBA – Temple University	1990	1999	1999
Peter Connors	President	Portfolio Management/Small Cap Research	●		1992	1992	1992

Source: Connors, CG IAR

Business Structure Overview

History/Ownership

- Founded in 1969 and headquartered in Wyomissing, PA, Connors Investor Services is a boutique firm that focuses on two key strategies: small cap equity and option overlay. Connors employs 14 professionals.
- Ownership is divided between employees (73%), with the remainder between the Board of Directors and their immediate family (27%).

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Employee Owned	100%
Publicly Traded	**Ticker Symbol**
No	N/A

Source: Connors, CG IAR

Business Plan

- Connors seeks to grow their existing products as well as consider new offerings that fit with their core skills.

Assets Under Management ($ Millions)

Year	Firm	Strategy
2013	$522.0	$165.0
2012	$387.0	$92.0
2011	$362.0	$90.0
2010	$358.0	$86.2
2009	$327.6	$76.3

Source: Connors, CG IAR

Legal/Compliance

- According to the firm, the SEC completed a review of the firm in 2011 and had no material findings.
- There are no current legal proceedings involving the firm.

Other Key Factors

Incentives/Alignment of Interests

- Investment professionals receive a base salary and bonus. The bonus is based on the overall success of the firm and is shared by the entire team.

DEFINITIONS

S&P 500 Index – S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is meant to reflect the risk/return characteristics of the large cap universe. Companies included in the index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. The S&P 500 is a market value weighted index - each stock's weight is proportionate to its market value.

OPTIONS

Options are **not** for every investor. This sales material must be accompanied by or preceded by a copy of the booklet 'Characteristics and Risks of Standardized Options' (ODD). Investors should not enter into options transactions until they have read and understood the ODD. A copy of the ODD is available at http://www.theocc.com/about/publications/character-risks.jsp

Before engaging in the purchasing or writing of options, investors should understand the nature and extent of their rights and obligations and be aware of the risks involved, including, without limitation, the risks pertaining to the business and financial condition of the issuer and the underlying security or instrument. Options investing, like other forms of investing, involves tax considerations, transaction costs and margin requirements that can significantly affect the profit and loss of buying and writing options. The transaction costs of options investing consist primarily of commissions (which are imposed in opening, closing, exercise and assignment transactions), but may also include margin and interest costs in particular transactions. Transaction costs are especially significant in options strategies calling for multiple purchases and sales of options, such as multiple leg strategies, including spreads, straddles and collars.

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Option prices may move rapidly and unpredictably in a direction unanticipated by market participants resulting in potentially severe losses. All options contracts involve inherent leverage, which will magnify any loss as well as any gain. Any number of factors may contribute to illiquidity/restricted trading including, but not limited to, disruptions in trading of the underlying asset, insufficient number of market participants, or actions of courts or regulatory agencies, all of which may effectively restrict contract disposition resulting in potential loss. Option writers may incur opportunity costs by foregoing the opportunity to benefit from favorable movements in the underlying asset.

Covered Call Risks

Options are not suitable for all investors; therefore the covered call strategy may not be suitable for all investors. Some of the risks of covered call writing are the following:

1) An option writer may be assigned at any time during the life of the option, including the day written, regardless of the in- or out-of-the-money status of the position.
2) If the short call is assigned, the writer must deliver the underlying security.
3) The writer of a covered call forgoes the opportunity to benefit from an increase in the value of the underlying security above the option strike price, but continues to bear the risk of a decline in the value of the underlying security.
4) Buying back a call to close an existing position and writing another call with a different strike price and/or expiration, also known as rolling, can have an adverse impact on the profitability of the account. Rolling will result in added~~,~~ transaction costs which will reduce returns or add to any losses. Note: It may not be prudent to continually roll positions at a loss.
5) If a secondary market in options becomes unavailable and prevents a closing transaction, the options writer's obligation would remain until expiration or assignment.
6) The sale of the stock through an option assignment or the closing/expiration of an option position may produce a tax consequence. Please consult with your Tax Advisor prior into entering any transactions.

The indexes are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only.

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

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

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Investment products may move from the Focus List to the Approved List, or vice versa. CG IAR may also determine that an investment product no longer meets the criteria under either research process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

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Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

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Performance and Other Portfolio Information
General
Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

Benchmark index
Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

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

Other data
Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings
Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data
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Asset Class and Other Risks
Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

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

IPO securities: Investment in initial public offerings (IPO) exposes the portfolio to additional risks associated with companies that have little operating history as public companies, as well as to the risks inherent in those sectors of the market where these new issuers operate.

Value and ***growth investing*** also carry risks. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. 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.

International securities may carry additional risks, including foreign economic, political, monetary and/or 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***.

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

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer. Similar to bonds, ***loans*** are subject to interest rate risk and credit risk. Liquidity risk may be greater for a loan since there is no organized exchange on which loans are traded and reliable market quotations may not be readily available.

Ultra-short bond funds generally invest in fixed income securities with very short maturities, typically less than one year. They are not money market funds. While money market funds attempt to maintain a stable net asset value, an ultra-short bond fund's net asset value will fluctuate, which may result in the loss of the principal amount invested. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

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.

Real estate investments: property values can fall due to environmental, economic or other reasons, and changes in interest rates can negatively impact the performance of real estate companies.

Derivatives, in general, involve special risks and costs that may result in losses. The successful use of derivatives requires sophisticated management, in order to manage and analyze derivatives transactions. The prices of derivatives may move in unexpected ways, especially in abnormal market conditions. In addition, correlation between the particular derivative and an asset or liability of the manager may not be what the investment manager expected. Some derivatives are "leveraged" and therefore may magnify or otherwise increase investment losses. Other risks include the potential inability to terminate or sell derivative positions, as a result of counterparty failure to settle or other reasons.

Mortgage-backed securities ("MBS"), which include collateralized mortgage obligations ("CMOs"), also referred to as real estate mortgage investment conduits ("REMICs"), may not be suitable for all investors. There is the possibility of early return of principal due to mortgage prepayments, which can reduce expected yield and result in reinvestment risk. Conversely, return of principal may be slower than initial prepayment speed assumptions, extending the average life of the security up to its listed maturity date (also referred to as extension risk). Additionally, the underlying collateral supporting MBS may default on principal and interest payments. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements.

Commodities: The commodities markets may fluctuate widely based on a variety of factors including, but not limited to, changes in supply and demand relationships; governmental programs and policies; national and international political and economic events, war and terrorist events; changes in interest and exchange rates; trading activities in commodities and related contracts; pestilence, technological change and weather; and the price volatility of a commodity.

Alternative/hedged strategies may use 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/hedged strategies are not appropriate for all investors. A short sales strategy includes the risk of loss due to an increase in the market value of borrowed securities. Such a strategy may be combined with purchasing long positions in an attempt to improve portfolio performance. A short sales strategy may result in greater losses or lower positive returns than if the portfolio held only long positions, and the portfolio's loss on a short sale is potentially unlimited. The use of leverage can magnify the impact of adverse issuer, political, regulatory, market, or economic developments on a company. A decrease in the credit quality of a highly leveraged company can lead to a significant decrease in the value of the company's securities. In a liquidation or bankruptcy, a company's creditors take precedence over the company's stockholders.

MLPs involve risks that differ from an investment in common stock. MLPs are controlled by their general partners, which generally have conflicts of interest and limited fiduciary duties to the MLP, which may permit the general partner to favor its own interests over the MLPs. The potential return of MLPs depends largely on the MLPs being treated as partnerships for federal income tax purposes. As a partnership, an MLP has no federal income tax liability at the entity level. Therefore, treatment of one or more MLPs as a corporation for federal income tax purposes could affect the portfolio's ability to meet its investment objective and would reduce the amount of cash available to pay or distribute to you. Legislative, judicial, or administrative changes and differing interpretations, possibly on a retroactive basis, could negatively impact the value of an investment in MLPs and therefore the value of your investment.

The current yield of ***preferred securities*** is calculated by multiplying the coupon by par value divided by the market price. 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. The initial rate on a floating rate or index-linked preferred 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/linked index. However, there can be no assurance that these increases will occur.

Convertible securities are convertible to equity at the option of the holder. The market value of the securities, and the underlying common stock into which they are convertible, will fluctuate. In particular, securities whose value depends on the performance of an underlying security entail potentially higher volatility and risk of loss compared to traditional bond investments. You should be aware that the market value of convertible bonds may not correspond directly to increases or decreases in the underlying stock.

No Tax Advice

Morgan Stanley Wealth Management and its affiliates do not render advice on tax and tax accounting matters to clients. This material was not intended or written to be used, and it cannot be used or relied upon by any recipient, for any purpose, including the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

Please consult your personal tax and/or legal advisor to learn about any potential tax or other implications that may result from acting on a particular recommendation.

Conflicts of Interest

CG IAR'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 CG IAR 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 CG IAR 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, CG IAR is responsible for the opinions expressed by CG IAR. 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 CG IAR'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.

Kennedy Capital Management Mid Cap Value

APPROVED LIST REPORT

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Summary of Opinion:

- Kennedy Capital Management's (KCM) investment process is both labor and data intensive with the goal of generating an "informational edge" when investing in the mid cap universe.
- The product seeks companies that are earning a return in excess of their cost of capital, gaining market share and trading at a discount relative to the investment team's cash flow projections.
- KCM currently utilizes a proprietary information management system that compiles news and earnings data on a real-time basis to assist in creating investment ideas and conducting fundamental analysis. KCM prefers companies reinvesting cash back into their business and as such the portfolio regularly exhibits a lower dividend yield than the benchmark.
- The strategy lead PM has changed over time. Despite the turnover, the strategy's investment philosophy and process have been in place and consistently implemented since the product's inception.
- For the past five years ending 12/31/14, the strategy return modestly outpaced the index return. Kennedy benefitted from strong security selection in the Financials sector and an underweight to the Telecommunications Services sector.

STRATEGY DETAILS

INVESTMENT STYLE:	*Mid Cap Value*
BENCHMARK:	*Russell Midcap Value Index*
GIMA STATUS:	*Approved List*
PRODUCT TYPE:	*Separately Managed Account*
TICKER SYMBOL	*NA*
SUB-ADVISOR	*NA*

http://www.kennedycapital.com

STRATEGY DESCRIPTION

Kennedy Mid Cap Value employs a labor intensive, fundamental, bottom-up investment approach with the objective of consistently outperforming the Russell Mid Cap Value Index over a complete market cycle.

Positive Attributes

- KCM is a 100% employee-owned investment firm primarily focused on managing small and mid cap equities.
- Capable and experienced Portfolio Manager
- Consistent and repeatable investment process
- Large research staff with multiple layers of experience

Points to Consider

- Fundamentally driven, bottom-up investment approach
- Emphasizes stocks that are competitively positioned and reinvesting in their businesses.
- Portfolio valuations tend to be in-line to below the benchmark with similar to above average estimated earnings growth rates
- Dividend yield expected to be below the benchmark.
- A stock qualifies for the portfolio if it is within 80% of the weighted average market capitalization of the Russell Midcap Value Index.
- KCM Mid Value is expected to outperform the benchmark in more growth-oriented market environments and may lag when lower quality or deeper value strategies are in vogue.

Areas of Concern

- Due to Frank Latuda's leadership position on this product and other key firm mandates, his departure, while unexpected, would be viewed as a meaningful loss.
- The firm has experienced some PM and analyst turnover over the past few years. Despite the turnover, performance has remained in line with expectations.

News Summary

- 1Q14: Rich Todaro, analyst retired and Sean Ketcherside, analyst hired.
- 3Q13: Analyst Ryan Dunnegan joins the firm.
- 2Q13: Analyst, Chad Hoffman joins the firm.
- 3Q12: Analyst, Dave AuBuchon joins the firm.
- 2Q12: Analyst, Charles Place and Growth PM, Joe Kinnison, depart the firm. Growth PM, John Rackers, joins the firm.
- 3Q11: Analysts, Mike Kelly and Shaun Nicholson depart the firm.
- 2009: The lead PM responsibilities transitioned from Joe Kinnison to Frank Latuda.

Additional Comments

- KCM amended its trading policy in 4Q2011. Since the change, composite dispersion between the retail SMA (separately managed account) and institutional composites remains low which GIMA views favorably (more info available in Track Record Reliability section).

Portfolio Traits

	Equity
Range of Holdings	40-60
Maximum Position Size	The maximum weighting of any single security is 5%. Typically, the largest position weighting will be approximately 3%.
Econ Sector Constraints	Sector weightings are a result of bottom-up research, but typically do not deviate by more than 10% from the benchmark.
Tracking Error Target	No formal guidelines
Typical Annual Turnover	40-60% per year
Invests in ADRs	ADRs permitted, but only used occasionally
Invests in ETFs	Typically not utilized
Invests in Derivatives	No
Invests in IPOs	Allowable but have not used historically
Liquidity Constraints	No
Maximum Cash	Approximately 5%
Typical Cash Position	< 5%
Est. Product Capacity	$2.5-3 billion

Source: Kennedy Capital Management, GIMA

Investment Capabilities Overview

Portfolio Management Team

- Frank Latuda, PM and CIO, manages the Mid Cap Value portfolios at the firm. Mr. Latuda is supported by an Assistant PM, Gary Kauppila and a large team of sixteen research analysts that conduct fundamental research across all of the firm's equity strategies. In addition to this strategy, Mr. Latuda also is the lead PM on KCM's Small Cap Value, SMID Cap Value and the All Cap Value strategies.

Investment Philosophy & Process

- The strategy employs a labor intensive, fundamental, bottom-up investment approach with the objective of consistently outperforming the Russell Mid Cap Value Index over a complete market cycle.
- KCM believes they are able to accurately assess a multitude of company information overlooked by the market that can lead to inefficient pricing of stocks in the mid cap universe. To exploit these opportunities, the firm dedicates significant resources to evaluate the vast majority of news items and earnings reports released by these companies through a proprietary information management system. According to the firm, this work helps to create an "informational edge" in identifying changes in market share, new product cycles, and industry trends, which ultimately may presage the correction of inefficiencies in an individual equity.
- KCM seeks to invest in companies that generate consistent returns in excess of their cost of capital, possess strong management teams, are successful innovators and operate in a defendable market niche. KCM prefers to invest in these companies when their stocks are believed to be inexpensively valued relative to their projected cash flows.
- Idea generation begins at the analyst level, as they monitor and analyze information released by companies in their sectors of coverage. The analyst's initial responsibility is to discern which companies are succeeding in their respective marketplaces and are gaining market share.
- Once these companies are identified, the analyst will conduct fundamental research on the company. This typically entails analyzing the company's financial statements and SEC filings, reviewing industry journals and meeting with the company management teams. At this point, the analyst will develop cash flow estimates for the next five years.
- These proprietary cash flow estimates are entered into a discounted cash flow model. Companies whose stocks are trading at a discount to the present value of their future projected cash flows are candidates for purchase. KCM's valuation work places particular emphasis on companies reinvesting in their businesses.
- The portfolio managers work with analysts to ascertain their conviction in earnings and cash-flow estimates, and the degree these estimates differ materially from consensus views. This work culls the list of possible buys, eventually producing a basket of stocks that may offer favorable risk/reward tradeoff.
- From a risk management perspective, position sizes, sector weightings, and the number of stocks in the portfolio are reviewed by the firm's Investment Policy Committee quarterly.

Other Key Items

Decision Making

- While Mr. Latuda collaborates extensively with Mr. Kauppila and the analyst team, he is the ultimate investment decision makers on the product.

Sell Process

- From a sell discipline perspective, a stock can be sold if its fundamental position deteriorates, a stock appears overvalued, or a company with more attractive expected return and risk characteristics is available.

Track Record Reliability

- GIMA considers the product's historical track record to be a relevant representation of what investors can expect from the strategy.
- The strategy has experienced PM turnover over the past few years.
- Inception-2003 - Frank Latuda, lead PM
- Jan 2004-Dec 2005 – Frank Latuda and Joe Kinnison, Co-PMs.
- Dec 2005-Sept 2006 – Joe Kinnison, lead PM, Frank Latuda, Asst PM
- Sept 2006-Jan 2009 – Joe Kinnison, lead PM
- Jan 2009-Sept 2009 – Frank Latuda and Joe Kinnison, Co-PMs, Gary Kauppila, Asst PM
- Sept 2009-today – Frank Latuda, Lead PM, Gary Kauppila, Asst PM
- Although formal lead PM duties on the strategy have changed over time, its investment philosophy and process have been in place and consistently implemented since the product's inception.
- In 10/2011, KCM amended its trading policy for this strategy due to technological limitations and associated trade execution delays at certain third party distribution partners. Previously, KCM adhered to a dynamic trade rotation among its freely traded institutional accounts and its various third party retail channels. To manage the aforementioned issue, KCM changed this policy to consistently trade its freely traded institutional accounts first and then execute its existing dynamic rotation among its third party channels. While this new policy is not unique in the industry, the potential for greater future dispersion between its institutional and wrapped composites exists as well as the prospect for less favorable trade execution in its retail channels. Since the change, composite dispersion remains low, which GIMA views favorably.

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Frank Latuda, Jr.	Lead Portfolio Manager	Generalist	●	Illinois	1991	1997	2009
Gary Kauppila	Portfolio Manager	Generalist	●		1995	2007	2009
Source: Kennedy Capital Management, GIMA							

Business Structure Overview

History/Ownership

- Kennedy Capital Management, Inc (KCM) was founded in 1980 by Gerald Kennedy and Richard Sinise and is located in St. Louis, MO.
- The firm is 100% employee-owned with broad equity ownership throughout the organization. KCM's current portfolio managers hold approximately 60% ownership in the firm with the remaining equity held by other key employees.

Business Plan

- Kennedy Capital Management, Inc.'s plan is to remain focused on generating strong investments for existing clients and to fill existing capacity in their small and mid cap products.

Legal/Compliance

- Kennedy Capital Management's last routine SEC examination was in April 2011 and revealed no material deficiencies. The firm's most recent ADV reflects no violations with the SEC or any other regulatory body.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
KCM Employees	100%
Publicly Traded	**Ticker Symbol**
No	
Source: Kennedy Capital Management, GIMA	

Assets Under Management ($ Millions)

Year	Firm	Product
2014	$5,672	$429
2013	$5,666	$343
2012	$4,378	$247
2011	$3,719	$91
2010	$3,943	$97
2009	$2,995	$86
Source: Kennedy Capital Management, GIMA		

Other Key Factors

Incentives/Alignment of Interests

- KCM investment professionals are compensated through a combination of salary and incentive bonus. Portfolio Manager incentive compensation is linked to the strategy's one- and three-year performance relative to its benchmarks and peers. A research analyst's bonus is tied to the performance of stocks held in KCM portfolio's relative to their respective industry group. Additionally, the firm views current and potential equity ownership as a key incentive for employee longevity.

DEFINITIONS

Russell Midcap Value - Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values.

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of “co-movement” between portfolio returns and benchmark returns. The closer the portfolio’s R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio’s rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio’s returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio’s return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio’s returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

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This report is only to be used in Morgan Stanley Wealth Management investment advisory programs and not in connection with brokerage accounts.

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Focus List, Approved List and Tactical Opportunities List; Watch Policy
GIMA uses two methods to evaluate investment products in applicable advisory programs: Focus (and investment products meeting this standard are described as being on the Focus List) and Approved (and investment products meeting this standard are described as being on the Approved List). In general, Focus entails a more thorough evaluation of an investment product than Approved. Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either process and will no longer be recommended in investment advisory programs (in which case the investment product is given a “Not Approved” status).

GIMA has a ‘Watch” policy and may describe a Focus List or Approved List investment product as being on “Watch” if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming “Not Approved.” The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager or fund to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a “W” or “Watch” next to the “Status” on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a publication entitled “Manager Selection Process.”

No Obligation to Update
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Consider Your Own Investment Needs

This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Performance and Other Portfolio Information

General

Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

Benchmark index

Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

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

Other data

Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings

Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data

Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

Asset Class and Other Risks

Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

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

Value and ***growth investing*** also carry risks. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. 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.

International securities may carry additional risks, including foreign economic, political, monetary and/or 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***.

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

No Tax Advice

Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors do not provide legal or tax advice. Each client should always consult his/her personal tax and/or legal advisor for information concerning his/her individual situation and to learn about any potential tax or other implications that may result from acting on a particular recommendation.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

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Congress Asset Management Mid Cap Growth / Congress Mid Cap Growth Fund

APPROVED LIST RESEARCH REPORT

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STRATEGY DETAILS

INVESTMENT STYLE:	*Mid Cap Growth*
BENCHMARK:	*Russell Mid Cap Growth Index*
CG IAR RESEARCH STATUS:	*Mid Cap Growth*
PRODUCT TYPE:	*Separately Managed Account & Mutual Fund*
TICKER SYMBOL:	*CMIDX, IMIDX (UMA)*

www.congressasset.com

STRATEGY DESCRIPTION

Congress uses a process-driven committee-based approach to growth investing. The investment process emphasizes quality growth businesses with a demonstrated history of stable & consistent earnings growth and balance sheet strength. The process generally falls within the description of "GARP" investing (Growth At a Reasonable Price).

Summary of Opinion:

- Consulting Group Investment Advisor Research ("CG IAR") placed the Congress Asset Management ("CAM") Mid Cap Growth strategy on the Approved List based upon our view of the equity team as capable and knowledgeable with a long track record of successfully implementing the process.
- The team considers the investment philosophy as "growth at reasonable risk", where the team seeks companies that consistently grow earnings and profitability, and have strong financial footing, within a portfolio that emphasizes diversification.
- The team generally targets the portfolio to be equally-weighted across 35-45 stocks, with a 5% position maximum, and absolute economic sector limit of 30%.
- The separate account and mutual fund are managed to the same model, however mutual fund portfolio weightings tend to be closer to equal weights due to a generally higher level of cash flows. The separate accounts may experience a greater degree of variability; being equally-weighted at inception but allowing successful positions to occupy a greater proportion of the portfolio over time.
- The process' emphasis on earnings power translates into a higher quality, more stable growth portfolio whose performance pattern has historically been supportive of an investment style that is conservative-to-traditional growth.
- Investment personnel are structured with a committee-based portfolio manager team, which is supported by a shared analyst team. Each product has a dedicated committee, which is comprised of both PMs and analysts. Investment decisions are consensus-based, however committee chair and PM Todd Solomon carries the most influence. PMs also have client service responsibilities. Analysts rotate sector coverage every few years.

Positive Attributes

- With over 20 Portfolio Managers & Analysts (firm wide) dedicated to investment research, CG IAR views the overall research team to be deep and knowledgeable.
- The dual-role of PM/Relationship Manager has enhanced client retention.
- Dan Lagan has been with the firm for over 20 years and is highly regarded by CG IAR as the firm's CEO and CIO.
- The firm is diversified by products.

Points to Consider

- Portfolio will typically hold 35-45 stocks with expected turnover of 25-40%.
- New accounts are equally weighted across model positions and permitted to appreciate up to 5% position maximums.
- While Congress is regarded as a relatively conservative manager, they will take risk in the portfolio where warranted. The manager may pair or off-set some higher-beta, higher-risk stocks with the more stable areas of the portfolio.

Areas of Concern

- The lack of employee ownership of equity in the firm outside of the Lagan family.
- A significant level of the firm's assets are with Morgan Stanley (client concentration risk).
- Poor performance in recent years for the flagship Large Cap Growth equity strategy.

News Summary

- 2Q14 – CG IAR adds the mutual fund version of the strategy as an alternative to the separate account.
- 2Q14 – Analyst Nancy Huynh was promoted to Research Director, still retaining her coverage responsibilities.
- 3Q13 – Alfred Lagan, the founder and chairman of Congress, passed away in July 2013. Mr. Lagan was a member of the Fixed Income Product Committee and the Dividend Growth Product Committee. He was also responsible for writing investment commentary and maintaining client relationships. As a result, Dan Lagan was named as the firm's CEO. In addition, he will continue to be the firm's CIO.
- 3Q13 – Congress added John O'Reilly and Matt Lagan to the Large Cap Product Committee. In addition, they removed John Fitzgerald, Ryan Tumbry, and Noel Blair from the Mid Cap Product Committee. According to Congress, these changes were made to enhance the committees and refocus the analysts' responsibilities.
- In 2Q12, the Large Cap Product Committee (LCPC) was reduced from nine members to six with the removal of Al Lagan, Todd Solomon, and John O'Reilly
- 1Q10 – CAM acquired the Boston-based fixed income manager Prelude Asset Management ("Prelude"), which added additional fixed income resources to the firm as well as approximately $1 billion in assets. Al Lagan relinquished the role of Chair of the FIPC to Jeff Porter and Mr. Porter was added to the Management Committee.

Additional Comments

- In 1Q10, CAM discontinued the Director of Research role previously held by Todd Solomon. Mr. Solomon took a more product-specific role as the chair of the Mid Cap Product Committee. In addition, CAM removed Gregg O'Keefe as the long-standing chairman of the Mid Cap Product Committee (MCPC), and replaced him with Todd Solomon in this role. CG IAR viewed the decision to remove him from this role in 2Q 2010 as the primary reason for the research status change from "Focus" to "Approved" as Mr. O'Keefe was viewed as a seasoned and experienced investment professional (Mr. O'Keefe continues to contribute to the Mid Cap Growth product as a PM).
    - In May 2014, Congress reinstituted the Research Director role as a means to re-focus analyst efforts. After 4-years without the role, the firm realized that they were better served with formal analyst oversight.
- Mr. Solomon previously contributed to the Mid Cap Growth portfolio as a PM from 2001 to 2005. However he had not been specifically assigned to the product from 2005 to 2010. In addition, he had no previous experience as a committee chair at CAM, which introduced a level of concern with the firm's conviction in the product. CAM indicated that this role change is in recognition of Mr. Solomon's contributions over time.
- There have been frequent changes on the Investment Committees in recent years. While CG IAR lauds the firm for being adaptable, frequent changes to these committees can be a distraction to the investment team.

Portfolio Traits

Equity	
Range of Holdings	35-45
Maximum Position Size	5%
Econ Sector Constraints	0- 30%
Capitalization	$800M to $10B at purchase, $20B at market
Tracking Error Target	No target
Typical Annual Turnover	25-40%
Invests in ADRs	Practical limit of 5%
Invests in ETFs	No
Invests in Derivatives	No
Invests in IPOs	No
Liquidity Constraints	$500m and above
Maximum Cash	5%
Typical Cash Position	2.5%
Est. Product Capacity	None stated

Source: Congress

Investment Capabilities Overview

Portfolio Management Team

- The Mid Cap Product Committee (MCPC) manages the Mid Cap Growth strategy at Congress. This committee is comprised of five portfolio managers and one analyst.
- Todd Solomon has been the chairperson of the MCPC since January 2010. He joined the firm in 2001 with research experience from prior firms dating back to 1993.
- The portfolio managers on the committee are generalists and do some fundamental analysis on companies. PMs also have client service responsibilities. The analysts at Congress have specific sector responsibilities and do a more in-depth analysis of the companies. They were added to the product committees to get some experience with portfolio construction and the investment decision-making process.
- The product committees meet weekly to discuss holdings and potential new investment ideas. According to the firm, the analysts present the potential holdings before the portfolio managers deliberate the stock idea.

Investment Philosophy & Process

- The investment philosophy is based on seeking companies with consistent earnings and cash flow growth that can compound returns over time.
- In addition to consistent growth metrics, portfolio holdings should have strong financial strength, be industry leaders, and have quality management teams.
- The investment screens are run on stocks with markets caps between $800 million to $10 billion, and seek to identify improving fundamentals such as revenue and earnings growth, sustainability of growth, and sound corporate governance.
- The investment team evaluates 25 core fundamental metrics on each company. In addition, they review SEC reports, independent third party research, and sell side analysis. The analysts at Congress do not build their own earnings models.
- The stocks in the portfolio need to have a catalyst that is either based on a company-related factor such as a new product or new management, or the catalyst is related to the company's earnings.
- The Mid Cap Product Committee also maintains a watch list of stocks that they like, but are not investible due to valuations, timing, or already owning a similar stock in the portfolio.
- The portfolio is initially equally-weighed at approximately 2.5% and allowed to appreciate up to 5% before being trimmed back to adhere to the portfolio construction parameters.

Other Key Items

Decision Making

- CAM functions as a team through the MCPC. Decisions are not formally voted upon. Therefore, no one individual has a strong influence over the buy / sell decision, however if a consensus cannot be reached by the MCPC, Mr. Solomon determines the course of action to be taken.

Sell Process

- The committee will usually sell a holding every time they add a new stock. The stocks are sold for three reasons:
    - Fundamental deterioration of the security and/or two or more successive quarters of disappointing financial results relative to their expectations.
    - Stock grows larger than the maximum position size and is either trimmed or sold.
    - The investment team finds a more attractive alternative**.**

Track Record Reliability

- While the MCPC changed from Gregg O'Keefe to Todd Solomon in January 2010, CG IAR believes the separate account composite is representative of the strategy's performance given the overall stability of investment professionals over time.
- The mutual fund was incepted on 10/31/12 and is managed by the same investment team and process as the separate account. The mutual fund track-record is highly representative of the current investment team and process.

Key Investment Professionals

Investment Team Overview	Position*	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Daniel A. Lagan	CEO/CIO/PM	Generalist	●	Boston College	1989	1989	1992
Todd W. Solomon	PM/Chair MCPC	Generalist	●	New York Univ.	1992	2001	2001
Gregg A. O'Keefe	PM	Generalist	●	Boston College	1986	1986	1999
John B. O'Reilly	PM	Generalist	●	Bryant College	1989	2001	2001
Amy Noyes	PM	Generalist	●	Northeastern Univ.	1991	2001	2001
Srikanth Gullapalli	Analyst	Health Care	●	Univ. of St. Thomas	1999	2005	2012

Source: Congress
**this table represents the Mid Cap Product Committee (MCPC)*

Business Structure Overview

History/Ownership

- Congress Asset Management Company ("CAM") was founded in 1985 by Alfred A. Lagan in Boston, Massachusetts.
- CAM is a partnership between Lagan Holding Company Trust (owns 99%) and Lagan-Congress Inc. (owns 1%). There are A and B shares in the Lagan Holding Company Trust. The A shares are the voting rights and are owned by Dan Lagan (52%), Chris Lagan (46.5%) and Matt Lagan (1.5%). The B shares are non-voting shares and are owned by the Lagan family, including the family members that are CAM employees as well as the family members that do not work at CAM.
- Congress acquired Prelude Asset Management during 1Q10 to increase and diversify the asset base, expand their offering for institutional clients, and enhance their fixed income capabilities.

Business Plan

- The CAM business plan calls for continued development of their existing business model, which will continue to focus on three business drivers: the institutional channel, charitable organizations, and private clients including sub-advisory.
- The firm has recently seeded a small cap growth product as an extension of their mid-cap and multi-cap strategies.

Legal/Compliance

- The most recent SEC audit was conducted in October 1999.
- CAM conducts internal audits several times a year to identify areas for improvement.
- According to CAM, there are no lawsuits against the firm at this time.
- Larry Ward is both a Portfolio Manager and the Chief Compliance Officer. While it is not uncommon to have an investment professional also hold the duty of CCO, it may inject certain conflicts of interest. Additionally, the close family ownership of the firm by the Lagan family could also introduce certain difficulties in performing the CCO role, which is exacerbated by the dual-functionality of investment responsibilities. CG IAR does not perceive that CAM has compromised the firm in any way, but merely points out that there are inherent shortcomings of the structure in place. As of 2Q14, CAM is searching for a dedicated CCO, which will alleviate CG IAR's apprehension.

Other Key Factors

Incentives/Alignment of Interests

- There are three components to the investment professionals' compensation including: a competitive base salary, an annual bonus (based on growth in profitability, long-term investment performance, growth in AUM, and management's discretion), and an Equity Participation Plan (for key employees). The Plan grants rights to employees to share in the long-term profitability of Congress.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Lagan Holding Company	99%
Lagan-Congress, Inc.	1%
Publicly Traded	**Ticker Symbol**
No	n/a

Source: Congress

Assets Under Management ($ Millions)

Year	Firm	Strategy*
1Q14	$7,491	$941
2013	$7,467	$815
2012	$7,498	$497
2011	$7,014	$340
2010	$6,677	$291
2009	$5,462	$253
2008	$4,371	$224

Source: Congress
**strategy assets are inclusive of all investment vehicles, which included $631 million in the SMA and $128 million in the mutual fund as of 03/31/14.*

DEFINITIONS

Russell Midcap Growth - Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index.

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of “co-movement” between portfolio returns and benchmark returns. The closer the portfolio’s R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio’s rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio’s returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio’s return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio’s returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

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Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

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IPO securities: Investment in initial public offerings (IPO) exposes the portfolio to additional risks associated with companies that have little operating history as public companies, as well as to the risks inherent in those sectors of the market where these new issuers operate.

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Conflicts of Interest

CG IAR'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 CG IAR 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 CG IAR 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, CG IAR is responsible for the opinions expressed by CG IAR. 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 CG IAR'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.

Kayne Anderson/Virtus Small Cap Quality Value

APPROVED LIST REPORT

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STRATEGY DETAILS

INVESTMENT STYLE:	*Small Cap Value*
BENCHMARK:	*Russell 2000 Value*
GIMA STATUS:	*Approved List*
PRODUCT TYPE:	*Separately Managed Account & Mutual Fund*
TICKER SYMBOL	*PQSAX, PXQSX (TRAK FS, UMA)*

http://www.kayne.com; www.virtus.com

STRATEGY DESCRIPTION

The Kayne Anderson/Virtus Small Cap Quality Value is a concentrated, low turnover strategy. The investment team employs a disciplined, bottom-up fundamental research approach attempting to identify high-quality companies with the following characteristics: Market Dominance, Financial Strength, Consistent Growth and Management Excellence.

Summary of Opinion:

- Kayne Anderson Rudnick ("KAR") follows a bottom-up security selection process, focusing on fundamentally sound companies that possess intellectual capital and a management team adept at using capital. Additionally, there are times when KAR is willing to pay up for growth, which at times has resulted in growth and value characteristics that are at a premium, relative to the Russell 2000 Value Index. With this philosophy, process and style the manager seeks to exceed benchmark returns over full market cycles.
- Given the investment process's focus on higher quality companies with strong balance sheets, cash flows and earnings, the strategy should typically outperform in flat and down markets and lag in lower quality, strong momentum-driven markets.
- KAR stated that Investment Chair and former Co-CIO/Lead-PM for the Small and Smid Cap strategies, Robert Schwarzkopf, retired on December 31, 2014. Although the departure of Mr. Schwarzkopf is concerning. The firm has been proactive over the past few years in preparing for Mr. Schwarzkopf's eventual retirement. Since 2011, KAR has expanded the investment team and also hired CIO, Doug Foreman (7/2011). GIMA views the current investment team to be capable of continuing to implement the investment process and portfolio management with little disruption.

Positive Attributes

- Experienced equity investment team.
- The firm has adhered to its investment process based on the evaluation of historical returns and portfolio characteristics.

Points to Consider

- Highly concentrated product that can lead to high tracking error compared to its benchmark.
- Low turnover.
- Individual security weights of up to 9% may lead to large relative performance fluctuations compared to its benchmark.
- Will not invest in highly capital intense companies. Therefore the portfolio tends underweight the Utilities and Energy sectors, as well as Transportation stocks.
- Performance dispersion between SMA and mutual fund (see Additional Comments).

Areas of Concern

- The Strategy has historically been heavily influenced by former Co-CIO/ lead Portfolio Manager, Robert Schwarzkopf. Although GIMA has confidence in the abilities of the existing management team, including CIO Doug Foreman, to continue to implement the overall investment process, GIMA believes the team will undergo a short-term adjustment period. This may also result in the potential added pressure to perform well over the short-term, given Mr. Schwarzkopf's significant influence on the strategy.

News Summary

- December 2014 – Investment Chair and former Co-CIO/Lead-PM for the Small and Smid Cap strategies, Robert Schwarzkopf, retired.
- June 2014 – Hired Research Analyst, Christopher Benway as replacement.
- April 2014 –Research Analyst, Vi Tran departed the firm.
- June 2013 – Hired Research Analyst, Julie Biel as replacement.
- March 2013 – Research Analyst, Rebeka Milnes departed the firm.
- February 2012 – Hired Research Analyst, Rebeka Milnes.
- December 2011 – Hired Research Analyst, Chris Wright.
- October 2011 – Hired Research Analyst, Vi Tran.
- July 2011 – Hired Director of Equities, Doug Foreman.

Additional Comments

- Performance dispersion has been relatively high between the SMA and mutual fund. This can be attributed to varying asset flows within the mutual fund over various time periods. In particular, performance dispersion in 2010 was meaningfully impacted due to the fund's merger with the Harris Small Value Fund.

Portfolio Traits

Equity	
Range of Holdings	20-35
Maximum Position Size	5% at cost
Econ Sector Constraints	+/- 10% Russell 2000 Value Index sector weights
Country Constraints	US only
Emerging Mkts Constraints	N/A
Currency Hedging	No
Tracking Error Target	No
Typical Annual Turnover	25-35%
Invests in ADRs	No
Invests in IPOs	No
Liquidity Constraints	None
Maximum Cash	10%
Typical Cash Position	2%
Est. Product Capacity	$2.2 billion

Source: Kayne Anderson, GIMA

Investment Capabilities Overview

Portfolio Management Team

- Day-to-day management of the small cap value investment strategy is the responsibility of co-portfolio managers, Craig Stone and Julie Kutasov. Ms. Kutasov has served as a research analyst supporting the portfolio management team since 2001 and was promoted to co-portfolio manager on the strategy effective April 1, 2008. Additionally, Mr. Stone was promoted to co-portfolio manager on February 1, 2009 and he has been on the strategy as a research analyst since 2000. The portfolio management team is supported by six research analysts.

Investment Philosophy & Process

- KAR's small cap value strategy is structured on the premise that competitive risk-adjusted returns can be achieved through investment in high-quality companies purchased at reasonable prices.
- KAR employs a disciplined, bottom-up fundamental research approach attempting to identify high-quality companies with the following characteristics:
    - Market Dominance (strong business model and sustainable competitive advantages)
    - Financial Strength (low debt balance sheet, rising free cash flow, and strong profit margins)
    - Consistent Growth (low volatility of earnings and high return on invested capital)
    - Management Excellence (strategic vision/leadership and track record of success).
- Companies that meet KAR's initial quality investment standards are subjected to fundamental research that ultimately results in the creation of a focus list of roughly 50 to 60 companies that the team follows for possible inclusion in the model portfolio (approximately 20 to 35 companies). KAR's fundamental research process consists of 1) qualitative, 2) financial, and 3) valuation analysis. Qualitative Analysis assesses a company's long-term market positioning, prospects, and competitive advantages. The sustainability of a company's business model is evaluated in light of changing business conditions. In addition, KAR evaluates management's strategies, financial goals, track record, and shareholder value orientation. Financial Analysis involves an historical examination of a company's income statement, cash flow statement, and balance sheet on an absolute and peer relative basis. Valuation Analysis, accomplished in part, via an examination of different ratios (including price to sales, enterprise value to sales, enterprise value to EBITDA, price to earnings, price to book, price to cash flow, dividend yield), helps determine the current and potential value of each company under various scenarios.
- The model portfolio is typically concentrated in 20 to 35 high conviction investment holdings. From a risk management perspective, sector allocations are limited to no more than +/- 10% of the sector weights of the Russell 2000 Value Index. There is an additional company limit of 5% at cost in any one security. The portfolio managers may allow an individual security to appreciate up to 9% in the portfolio before it is reduced. Typically, the maximum market cap of an individual position will not be larger than the largest market cap of the Russell 2000 Value Index.

Other Key Items

Decision Making

- The portfolio managers, in consultation with the analysts, establish a target high, low and base price for each security on the model portfolio and focus list. The portfolio managers hold the ultimate responsibility for construction and management of the portfolio.

Sell Process

- The sell discipline includes selling a security when one or more of the following occurs:
  (1) Target price is achieved
  (2) Potential opportunity to upgrade the portfolio exists (enhance quality characteristics, accelerate growth profile, improve value metrics)
  (3) Diversification requirement exists (portfolio rebalance within sector controls/opportunity to improve industry mix)
  (4) Fundamental negative change to the company or industry has occurred

Track Record Reliability

- Portfolio Managers, Craig Stone and Julie Kutasov, have been co-managing the strategy since 2009 and 2008 respectively. However, up until 12/2013, the management of the strategy was led by Robert Schwarzkopf, who retired from the firm in December 2014.

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Doug Foreman	CIO/ Director of Equities	Generalist	●	Harvard	1987	2011	2011
Craig Stone	Portfolio Manager/Sr. Research Analyst	Producer Durables, Energy		USC	1990	2000	2009
Julie Kutasov	Portfolio Manager/Sr. Research Analyst	Producer Durables, Financials		Harvard	2002	2002	2008

Source: Kayne Anderson, GIMA

Business Structure Overview

History/Ownership

- Kayne Anderson Rudnick Investment Management was founded in 1984 by Richard Kayne and John Anderson, to manage the funds of its principals and clients through non-traditional investment partnerships. The traditional investment management business conducted by KAR began in 1989 when Allan Rudnick joined the firm. Over the years, KAR has experienced changes in its organizational and ownership structure. On January 29, 2002, Phoenix Investment Partners, Ltd. ("PXP"), a wholly-owned asset management subsidiary of The Phoenix Companies, purchased an initial majority interest (approximately 60%) in KAR, and at the end of 2004, PXP's ownership stake increased from 60% to 65%. On September 30, 2005, PXP purchased the remaining minority ownership interest (35%) in KAR. As a result of this step acquisition completed in 2005, PXP held a 100% ownership interest in KAR. Virtus Investment Partners completed its spin-off from the Phoenix Companies Inc. on December 31, 2008 and became an independent, publicly traded asset management company. KAR is a wholly-owned subsidiary of Virtus Investment Partners, Inc. (NASDAQ: VRTS).

Business Plan

- KAR's secular growth business plan calls for the firm's assets under management to increase both organically and through appreciation. The firm continues to focus on growing its three primary distribution channels of retail separately managed account, high net worth, and institutional. KAR is also looking to expand its product base with potential additions in the growth space.

Legal/Compliance

- According to KAR, the firm has never been the subject of an investigation by the SEC, NASD or any other government or regulatory office. KAR has never been fined by the SEC or any other regulatory office.
- KAR's most recent SEC exam was August 15, 2005. According to the firm no material issues were disclosed.

Other Key Factors

Incentives/Alignment of Interests

- KAR states that compensation levels are competitive in attracting and retaining high-caliber professionals. Investment professionals are paid a salary and a bonus based on their yearly contributions to the success of the firm. The research analysts and the portfolio managers share a similar incentive compensation plan. Every member of each team receives the same percentage performance bonus tied to the performance of the portfolios under management.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Virtus Investment Partners, Inc.	100%
Publicly Traded	**Ticker Symbol**
Yes	NASDAQ: VRTS

Source: Kayne Anderson, GIMA

Assets Under Management ($ Millions)

Year	Firm	SMA/Fund
2014	$9,367	$1,398/ $436
2013	$9,171	$1,383/ $510
2012	$6,877	$1,022/ $339
2011	$5,505	$862/ $415
2010	$4,811	$842/ $403
2009	$4,068	$690/ $160
2008	$3,445	$581/ $117

Source: Kayne Anderson, GIMA

DEFINITIONS

Russell 2000 Value - Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of “co-movement” between portfolio returns and benchmark returns. The closer the portfolio’s R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio’s rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio’s returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio’s return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio’s returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

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Focus List, Approved List and Tactical Opportunities List; Watch Policy
GIMA uses two methods to evaluate investment products in applicable advisory programs: Focus (and investment products meeting this standard are described as being on the Focus List) and Approved (and investment products meeting this standard are described as being on the Approved List). In general, Focus entails a more thorough evaluation of an investment product than Approved. Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either process and will no longer be recommended in investment advisory programs (in which case the investment product is given a “Not Approved” status).

GIMA has a ‘Watch” policy and may describe a Focus List or Approved List investment product as being on “Watch” if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming “Not Approved.” The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager or fund to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a “W” or “Watch” next to the “Status” on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

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Consider Your Own Investment Needs

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Performance and Other Portfolio Information

General

Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

For mutual funds, the investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain performance information, current to the most recent month-end, please contact the fund directly at the website set out on the cover page of this report.

Benchmark index

Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

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

Other data

Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings

Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data

Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

Asset Class and Other Risks

Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

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

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

Value and ***growth investing*** also carry risks. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. 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.

International securities may carry additional risks, including foreign economic, political, monetary and/or 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***.

No Tax Advice

Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors do not provide legal or tax advice. Each client should always consult his/her personal tax and/or legal advisor for information concerning his/her individual situation and to learn about any potential tax or other implications that may result from acting on a particular recommendation.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

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Apex Small Cap Growth / Touchstone-Apex Small Cap Growth Fund

FOCUS LIST REPORT

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STRATEGY DETAILS

INVESTMENT STYLE:	*Small Cap Growth*
EQUITY SUB-STYLE:	*Traditional Growth*
BENCHMARK:	*Russell 2000 Growth Index*
GIMA STATUS:	*Focus List*
PRODUCT TYPE:	*Mutual Fund and Separately Managed Account*
TICKER SYMBOL:	*MXAIX (UMA)*
SUB-ADVISOR:	*Apex Capital Management*

www.apexcm.com

STRATEGY DESCRIPTION

The Apex Small Cap Growth strategy seeks to invest in small cap stocks with strong growth characteristics and reasonable valuations that are within sectors and industries that the team believes are poised to benefit from the current global economic environment. The manager uses both top-down thematic and macro analysis combined with bottom-up research to build portfolios.

Summary of Opinion:

- GIMA (Global Investment Manager Analysis) placed the Apex Small Cap Growth strategy on the Focus List given our high opinion of the firm, team, and investment process.
- Apex Capital Management Inc. (Apex) is a small investment manager focused on growth investing. The firm is independent and the key members of the organization have an ownership stake, which GIMA believes translates into an investment team that is focused on the success of the firm and strategies.
- The separately managed account (SMA) and mutual fund are regarded as substantially similar investment vehicles. Apex began sub-advising the Touchstone Small Cap Growth Fund effective 4/26/13. Prior performance of the fund is not reflective of Apex.
- GIMA has a favorable view of the team's dynamic process and collaborative approach, which draws upon the experience and diverse talents of the investment professionals. Additionally, the investment team that built the successful track record has experienced no turnover.
- The investment approach incorporates macroeconomic, thematic, and bottom-up fundamental research. The team looks to build portfolios that consist of "stable growth" and "emerging growth" companies in an effort to deliver excess returns while managing risk. This approach has led to strong risk-adjusted returns over time.
- The portfolio will own 60-80 stocks with a 5% position maximum. Portfolio turnover during the past 5 years has averaged nearly 70% (54% in 2013).
- The 5-member investment team manages 6 products, including the Apex SMID Growth strategy, which is the firm’s flagship product at over 80% of total firm AUM. GIMA has some concerns surrounding personnel resources and product concentration risk.

Focus List				Snapshot		
Investment Capabilities	**Business Evaluation**	**Short-Term Performance Analysis (≤ 3Yrs)**	**Long-Term Performance Analysis (> 3 Yrs)**	**Track Record Reliability**	**Expected Benchmark Sensitivity**	**Expected Portfolio Turnover**
Above Average	**Above Average**	Above Expectations	**Above Expectations**	**High**	High	High
Average	Average	**In-Line**	In-Line	Moderate	Moderate	**Moderate**
Needs Improvement	Needs Improvement	Below Expectations	Below Expectations	Low	**Low**	Low

See Opinion Description at the end of this report.

Positive Attributes

- An independent, employee owned firm.
- The success of the firm and employees is directly tied to the success of the strategies.
- A dynamic process and collaborative approach that draws upon the expertise of all investment professionals.
- The investment team that built the successful track record has experienced no turnover.
- Compelling relative and risk-adjusted performance over time.

Points to Consider

- The process combines top-down global thematic and macroeconomic components with bottom-up fundamental company analysis.
- The manager looks to construct the portfolio with "stable growth" and "emerging growth" companies in an effort balance risk. The portfolio tends to be more heavily weighted to the "stable growth" category, which have a conservative-to-traditional growth profile and could alternatively be named "established growth" companies. The "emerging growth" companies tend to skew towards the traditional-to-aggressive end of the style spectrum.
- The top-down components may lead to higher tracking error and larger sector over/under-weightings relative to the benchmark.
- Effective 4/26/13, Apex was named sub-advisor on the Touchstone Small Cap Growth Fund. Prior performance of the mutual fund should be disregarded.

Areas of Concern

- The firm's expansion of product offerings has the potential to stretch resources. Apex states they will add to staff as needed and are adequately resourced.
- The firm's asset base is concentrated in the SMID Growth product, which could pose a risk if the strategy experienced a period of under-performance leading to a loss of investor traction.
- With substantial growth in the Smid and Small Cap Growth strategies, GIMA is monitoring the portfolio for "cap creep" (an increase in market capitalization levels) and "name creep" (an expansion in the number of holdings range) as a means of absorbing additional assets as estimated capacity was revised from $1.5 billion to $2 billion.

Performance Expectations

- GIMA believes that the strategy has the potential to out-perform in different market environments owing to the flexibility of the investment process. However, due to the team's valuation discipline, the portfolio may not keep pace in a market where excessive valuations are rewarded.
- Apex's "emerging growth" securities may offer significant upside potential although with greater risk. However, the portfolio's balance between "stable growth" and "emerging growth" companies should dampen overall volatility.

Performance Opinion

- For the year-to-date period ending 12/31/2014, the portfolio performed roughly in line with the benchmark. The portfolio had been outperforming the benchmark; however underperformance in 4Q14 negated excess return. Exposures to higher growth expectation and negative P/E stocks as well as an overweight in the Energy sector weighed on performance. Positive stock selection in the Consumer Discretionary and Energy sectors contributed to performance.
- The portfolio performed within expectations over the trailing 3-year annualized period ending 12/31/2014, which was mainly driven by outperformance in 2012.
- Longer-term results have been above expectations as the strategy outperformed in 2009-2012, with an admirable degree of alpha over the 5-year annualized period ending 12/31/2014. Despite a relatively short history in small cap growth, Apex has built a strong track record managing a SMID Growth strategy since 2000 using the same philosophy and investment approach.

News Summary

- 3Q14 – GIMA adds the Touchstone Small Cap Growth Fund to the Focus List.
- 2Q13 – Apex named as sub-advisor on the Touchstone Small Cap Growth Fund.
- 1Q12 – Apex Small Cap Growth Status changed from Approved List to Focus List.
- 4Q08 – Apex hired an additional marketing professional.
- 2Q08 – Sunil Reddy joins Apex as a Portfolio Manager.
- 2Q07 – Apex hires a Director of Marketing.

Additional Analyst Comments

- The separately managed account and mutual fund are managed to the same model portfolio.
- The manager's market capitalization purchase range is between $150 million to $3.5 billion with a sweet spot of $500 million to $1.5 billion. They will let successful positions appreciate up to approximately $5 billion at-market.
- The holdings range may breach the upper limit in instances where the manager wants to invest in higher risk areas of the market (i.e. bio-tech) and takes a "basket approach", holding more positions at reduced weights.
- Since 2013, the team structure shifted from a generalist format to specific sector coverage that plays to the strengths of the investment professionals. The major growth sectors have dual-coverage (technology, health care, and consumer discretionary). Portfolio managers also serve in an analyst capacity.
- In the event that CIO Nitin Kumbhani is incapacitated, analyst Kamal Kumbhani (his wife) and PM Mike Kalbfleisch would decide who would succeed Nitin as CIO. In terms of eventual ownership succession, Mrs. Kumbhani would also assume her husband's ownership stake. GIMA is comfortable that the team has the depth of personnel to head the firm in terms of business and investment leadership, however additional hires would likely be required to absorb research coverage responsibilities.
- Apex has the ability to purchase Exchange Traded Funds (ETFs). This is a rare occurrence and has been executed once in the history of the strategy. In the first quarter of 2009, as part of the manager's macroeconomic view, the manager wanted to invest in financial banks, but did not want to take the stock specific risk. Therefore, Apex purchased an approximate 2% position in a small cap regional bank ETF.
- According to Apex, the typical portfolio overlap between the Small Cap Growth and SMID Growth strategies has been approximately 30%.
- Economic Sector Constraints:

Benchmark weight	Apex Minimum	Apex Maximum
Greater than 20%	Half Weight	40%
10-20%	0%	Double Weight
Less than 10%	0%	Greater of double weight +5% or 15%

Additional News Summary

- None.

Portfolio Traits

Equity	
Range of Holdings	60-80
Maximum Position Size	5% Maximum
Econ Sector Constraints	See Additional Comments
Tracking Error Target	No Target
Typical Annual Turnover	70%-125%. Turnover tends to be higher at market inflection points. In recent years, it has averaged 70% per annum.
Invests in ADRs	15% Maximum
Invests in ETFs	Yes, but rare.
Invests in Derivatives	No
Invests in IPOs	No
Liquidity Constraints	Typically 5 days trading volume.
Maximum Cash	5%
Typical Cash Position	0%-5%
Est. Product Capacity	$2 billion

Source: Apex

Investment Capabilities Overview

Portfolio Management Team

- The investment team consists of four portfolio managers and one analyst. The portfolio managers also have analyst coverage responsibilities.
- Nitin Kumbhani serves as the firm's CIO. Mr. Kumbhani founded the firm in 1987 after selling his ATM technology software company.
- In 2000, the firm added PMs Mike Kalbfleisch and Jan Terbrueggen who come from investment backgrounds with commonality at John Nuveen & Co. Messer's Kalbfleisch and Terbrueggen both have nearly 30-years of investment experience.
- The latest addition to the investment team was PM Sunil Reddy in 2008, who has a background in fixed income and covers the technology and financial sectors. He has nearly 25-years of investment experience.
- Analyst Kamal Kumbhani joined the firm in 1994 and has over 20-years of investment experience. She mainly provides coverage in the health care sector.

Investment Philosophy & Process

- Apex focuses on identifying companies with strong growth characteristics and reasonable valuations that are within sectors and industries that the team believes are poised to benefit from the current global economic environment.
- New ideas are generated from the firm's top-down global themes and quantitative screening. Global secular themes are continuously established to identify growth opportunities that may offer investment tailwinds.
- The firm screens for key characteristics considered in analyzing each type of company. This is then followed by fundamental analysis with the goal of confirming sustainable growth characteristics.
- Apex also seeks companies with a global strategy & position, management quality, a catalyst that confirms the sustainability of growth, and reasonable valuations relative to history and peers.
- Apex seeks to balance the portfolio with "stable growth" and "emerging growth" companies. The range in allocation between stable growth and emerging growth companies is a function of the investment team's overall view of the environment (risk) and their bottom-up, fundamental research. On average, the portfolio is comprised of a 70/30 mix of stable/emerging growth companies, however a more offensive posture would be a 60/40 split, or a more defensive posture at 80/20.
    - Key characteristics considered for stable growth companies include; earnings growth acceleration, consistency in earnings growth, profitability, cash flow generation, financial leverage, and improving operating efficiency.
    - Factors evaluated for emerging growth companies include; revenue growth acceleration, positive earnings revisions, unique product niches, a growing addressable market, and whether the market underestimates its potential.
- Portfolios are constructed by evaluating the current economic and investment environment to determine appropriate sector and security weights.

Summary of Investment Capabilities Opinion

- GIMA has a favorable opinion of the team based upon their experience and the diverse talents that each member brings to a dynamic investment process. For example, Mr. Terbrueggen has experience in top-down economic analysis, which helps to shape the firm's macro views and themes. Both Messrs Kumbhani and Reddy have backgrounds in the technology industry, and Mr. Reddy has fixed income investment experience. Mr. Kalbfleisch has an accounting background. Ms. Kumbhani has focused on biotechnology and health care since 1994, with a degree in chemistry, physics, and math.
- All members of the investment team contribute to all aspects of the process. Although Mr. Kumbhani has ultimate veto authority, GIMA views this as a team approach with all individuals collectively contributing to the added value overtime.
- While an investment idea does not have to meet a theme, GIMA believes the team's focus on ideas backed by secular growth opportunities has been a key component to their success.
- While GIMA believes the team's focus and execution on macro, thematic, and bottom-up research has historically led to consistent relative returns, factor bets also have the potential for amplifying the downside if the market views a given theme unfavorably.

Other Key Items

Decision-Making

- Apex operates as an investment committee and all decisions are made on a consensus basis. Nitin Kumbhani is the CIO and has veto authority, which according to Apex is rarely used in practice.

Sell Process

- Stocks are reviewed for sale for valuation reasons, fundamental deterioration, for a better idea, or in adherence to portfolio construction parameters.
- Stock performance is also measured relative to the index over a trailing four-quarter period and is reviewed if it falls to the bottom two deciles in screening.

Track Record Reliability

- GIMA views the separate account track record reliability as high given that all five team members have been on the strategy since its inception in January 2009.
- While we would note that the managed account track record was executed on a small asset base, Apex has built a compelling track record managing a SMID Growth strategy since 2000 utilizing the same investment philosophy and approach.
- GIMA has confidence in the team's ability to execute the investment process in the small cap space going forward.
- Effective 04/26/13, Apex began a sub-advisory relationship with Touchstone Advisors for the Touchstone Small Cap Growth Fund. Performance of the mutual fund prior to 04/26/13 should be disregarded in its entirety.
- GIMA regards the SMA and mutual fund as "clones".

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Nitin Kumbhani	Chief Investment Officer/PM	Consumer Discretionary, Tech, Health Care			1987	1987	2000
Jan Terbrueggen	Portfolio Manager	Energy, Materials	●	Xavier University	1985	2000	2000
Mike Kalbfleisch, CPA	Portfolio Manager, CCO	Industrials, Consumer Staples	●		1985	2000	2000
Sunil Reddy	Portfolio Manager	Consumer Discretionary, Tech, Financials	●	Case Western Reserve University	1987	2008	2008
Kamal Kumbhani	Research Analyst	Health Care, Biotechnology		University of Madras	1987	1994	2000

Source: Apex

Other Key Professionals

Investment Team Overview	Position	Area of Responsibility	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Mark Harrell	Director of Marketing	Business Development			1987	2007	N/A
James Brown	Director of Operations	Operations and Trading		Wright State University	1995	2005	N/A

Source: Apex

Primary Functions of Key Professionals

Name	Security Selection	Security Research	Portfolio Construction	Trading	Client Service	Business Management
Nitin Kumbhani	●	●	●			●
Jan Terbrueggen	●	●	●	●		
Mike Kalbfleisch	●	●	●	●		●
Sunil Reddy	●	●	●			
Kamal Kumbhani		●				
Mark Harrell					●	●
James Brown				●		●

Source: Apex

Business Structure Overview

History/Ownership

- Apex Capital Management, Inc. was founded in 1987 by Nitin (Nick) Kumbhani as Kumbhani & Company initially offering its large cap growth strategy.
- In 2000, the firm brought on additional members to the investment team, changed its name to Apex Capital Management, Inc., and launched the Apex SMID Growth strategy.
- Mr. Kumbhani is the majority owner of the firm, and the three portfolio managers and Director of Marketing are minority owners.

Business Plan

- Apex manages products across the capitalization spectrum. This includes all cap, large cap, mid cap, small/mid cap, small cap and balanced growth products. Most of the assets are in the SMID Growth and small cap growth strategies. The firm's most recent product addition has been an international ADR strategy at the request of an institutional client. There are no current plans for any other new strategies.
- To expand distribution, the firm launched a small/mid cap growth mutual fund in 2012 and began sub-advising a small cap growth mutual fund in 2013 for Touchstone Advisors.
- The firm's goal is to leverage existing resources to grow assets, and carefully invest in resources including people, technology, and other services as needed.

Legal/Compliance

- There are no legal, regulatory, or civil items noted on the firm's ADV.
- The SEC conducted a routine review in February 2005. There were no material findings. Apex has worked to address any suggested areas of improvement.
- According to Apex, there is no outstanding litigation against the firm.

Summary of Business Structure Opinion

- GIMA views favorably that the firm is independent and key individuals have ownership. We believe the investment team has a vested interest in the product's success.
- Apex has seen growth in assets which has enhanced firm stability. The firm has added to its operational infrastructure and plans to continue this build out with future growth. For example, the firm hired a dedicated trader to relieve the PMs of this function.
- While GIMA prefers the separation of investment and compliance functions, PM/CCO Mike Kalbfleisch is assisted by other members of the team and a third party provider. The firm formalized their relationship with National Regulatory Services for out-sourced compliance services.
- The firm has been careful about additions to the investment team, and states they opportunistically look for talented individuals that may fit within their organization on an ongoing basis. GIMA views positively the firm's focus on preserving the culture of the firm with growth.

Other Key Factors

Incentives/Alignment of Interests

- Compensation consists of a salary and bonus, which is based on the firm's profitability.
- All portfolio managers have equity ownership.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Nitin Kumbhani	69%
Jan Terbrueggen	11%
Michael Kalbfleisch	10%
Sunil Reddy	5%
Mark Harrell	5%
Publicly Traded	**Ticker Symbol**
No	

Source: Apex

Assets Under Management ($ Millions)

Year	Firm*	Strategy*
2014	$5,604	$714
2013	$3,934	$268
2012	$1,999	$50
2011	$1,207	$31
2010	$1,000	$12
2009	$582	$9

Source: Apex

**Strategy assets are inclusive of all investment vehicles as well as assets under advisement or model-driven assets, with approximately $262 million in managed account assets and $248 million in mutual fund assets as of 12/31/14.*

OPINION OVERVIEW DESCRIPTION

Investment Capabilities – Represents GIMA's (Global Investment Manager Analysis) opinion of the investment manager's investment capabilities with respect to the product under evaluation. This section covers the areas of quality of investment professionals, portfolio management, research and process execution. As these areas are not mutually exclusive, but rather interrelated, it is important to render a cohesive opinion on these areas of an organization. This section has three potential opinion outcomes: **Above Average, Average** and **Needs Improvement**. **Above Average** conveys that GIMA has a high degree of confidence and conviction in a manager's investment capabilities. An opinion of **Average** denotes that, while GIMA has a generally favorable view, it may have some concerns about the investment manager's investment capabilities. An opinion rating of **Needs Improvement** generally indicates that GIMA has material concerns about the investment manager's overall investment capabilities. For example, this could be the result of sizable personnel departures, poor execution of stated investment discipline or a limited research effort.

Business Evaluation - Represents GIMA's opinion of the state of the investment manager's overall business condition. This area reviews items such as ownership structure, trends in assets under management, legal and/or compliance issues, investment professional incentives and trading policies. This area has three potential opinion outcomes: **Above Average, Average** and **Needs Improvement**. **Above Average** conveys that GIMA has a high degree of confidence and conviction in a manager's overall business structure and believes that there are limited to no material issues. An opinion of **Average** denotes that, while GIMA has a generally favorable view, it may have some concerns about the investment manager's business structure. An opinion rating of **Needs Improvement** generally indicates that GIMA has material concerns about the investment manager's overall business structure. For example, this could be the result of what we believe to be material legal and/or compliance issues, material asset loss, ownership issues or ineffective incentives for the investment professionals.

Short-Term & Long-Term Performance Analysis – The opinion for performance is broken into two components: 1) Short-Term Performance Analysis represents GIMA's opinion of the investment product's performance typically over a time period of the trailing three years or less, 2) Long-Term Performance Analysis represents GIMA's opinion of the investment product's performance typically over a time period of more than the trailing three years. These areas have three potential opinion outcomes: **Above Expectations, In-Line** and **Below Expectations**. **Above Expectations** conveys that GIMA believes the investment product has performed better than expected given investment biases and market conditions, while an opinion of **In-Line** denotes that GIMA believes the investment product has performed as expected given investment biases and market conditions. A rating of **In-Line** should not be interpreted negatively, but rather that the investment product is performing as expected. An opinion rating of **Below Expectations** generally indicates that GIMA has concerns about the investment product's overall investment performance given our knowledge of the investment manager's process and the overall market conditions.

Track Record Reliability – Represents GIMA's opinion of the overall integrity of the investment performance displayed to clients or potential clients. This area takes into consideration items such as portfolio manager tenure on a respective strategy, construction of the performance composite, and consistency in the execution of a stated investment process. This area has three potential opinion outcomes: **High, Moderate** and **Low**. **High** conveys that GIMA believes the investment performance track record has a high degree of integrity and is representative of what investors could expect over time, while an opinion of **Moderate** denotes that GIMA may have some concerns as it relates to the historical performance track record. An opinion rating of **Low** generally indicates that GIMA has material concerns about the investment product's historical performance track record. For example, if an investment product has had a long standing portfolio manager that has delivered solid performance results over the last five years relative to a benchmark and the portfolio manager is replaced by a new portfolio manager that instills a new investment process, GIMA may consider the historical performance track record to be non-representative of the new investment discipline.

Expected Benchmark Sensitivity – Represents GIMA's opinion of how closely an investment product's performance is expected to "track" the investment performance of GIMA's designated performance benchmark for a particular investment product. This area evaluates the historical investment performance tracking of a given investment product relative to a respective benchmark as well as the investment manager's current approach to active portfolio management. In evaluating benchmark sensitivity, GIMA will use relevant statistical measures such as tracking error and R-Squared as well as portfolio construction guidelines such as economic sector constraints and benchmark relative position sizing. This area has three potential opinion outcomes: **High, Moderate** and **Low**. In GIMA's opinion, **High** conveys that a product is anticipated to be managed with a high degree of emphasis on its benchmark with relatively tight control over the product's active weights relative to that benchmark. High benchmark sensitivity does not mean wide deviations from the benchmark will not happen, but that the investment manager seeks to reduce them. **Moderate** conveys that a product's management is anticipated to have some amount of benchmark sensitivity, but is able to make meaningful, but controlled, allocations away from a benchmark. **Low** denotes that a product places little to no emphasis on its assigned benchmark. Performance from a month-to-month and year-to-year basis may deviate significantly from its benchmark.

Expected Portfolio Turnover - Represents GIMA's opinion of how actively the portfolio is managed from the perspective of trading activity (purchases, sales, additions, trims, etc.). We do not view these ratings positively or negatively, but render an opinion for this category so Financial Advisors or Private Wealth Advisors and clients have some idea as to the overall level of activity that takes place in a given portfolio. High activity may result in a portfolio that is less tax-efficient for taxable clients, whereas Low activity may result in a more tax efficient portfolio for taxable clients. This area has three potential opinion outcomes: **High, Moderate** and **Low**. In GIMA's opinion, **High** conveys an investment product that is likely to have more than 90% turnover on an annual basis, while **Moderate** indicates expected annual portfolio turnover in the range of 30% - 90% and **Low** indicates expected annual portfolio turnover of less than 30%.

DEFINITIONS

Sub-Styles: Subjective classifications designed to assist with manager selection and performance evaluation based on Global Investment Manager Analysis ("GIMA") understanding of a manager's long-term investment philosophy and portfolio structuring biases and techniques. At points in time managers may display attributes of other sub-style classifications, and these classifications may change due to changes in the capital markets, evolution of performance benchmarks, industry trends, or changes involving a manager's personnel or process.

Traditional Growth: Generally invest in a mix of lower and higher growth companies, portfolios and performance likely to be more highly correlated to the respective growth benchmark than peers and may demonstrate the flexibility at times to take on characteristics of more Conservative or Aggressive growth peers.

Russell 2500 Growth - Russell 2500 Growth Index measures the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

IMPORTANT DISCLOSURES

Report for Use Only in Investment Advisory Programs
This report is only to be used in Morgan Stanley Wealth Management investment advisory programs and not in connection with brokerage accounts.

The Global Investment Manager Analysis (GIMA) services Only Apply to Certain Investment Advisory Programs
GIMA evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Smith Barney LLC's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any GIMA status changes even though it may give notice to clients in other programs.

Focus List, Approved List and Tactical Opportunities List; Watch Policy
GIMA uses two methods to evaluate investment products in applicable advisory programs: Focus (and investment products meeting this standard are described as being on the Focus List) and Approved (and investment products meeting this standard are described as being on the Approved List). In general, Focus entails a more thorough evaluation of an investment product than Approved. Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

GIMA has a 'Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved." The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager or fund to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" next to the "Status" on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a publication entitled "Manager Selection Process."

No Obligation to Update
Morgan Stanley Wealth Management has no obligation to update you when any information or opinion in this report changes.

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.

Consider Your Own Investment Needs
This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Performance and Other Portfolio Information

General

Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

For mutual funds, the investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain performance information, current to the most recent month-end, please contact the fund directly at the website set out on the cover page of this report.

Benchmark index

Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

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

Other data

Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings

Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data

Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

Asset Class and Other Risks

Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

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

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

Value and ***growth investing*** also carry risks. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. 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.

International securities may carry additional risks, including foreign economic, political, monetary and/or 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***.

No Tax Advice

Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors do not provide legal or tax advice. Each client should always consult his/her personal tax and/or legal advisor for information concerning his/her individual situation and to learn about any potential tax or other implications that may result from acting on a particular recommendation.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

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 a 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.

Lazard International Equity Select ADR

FOCUS LIST REPORT

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STRATEGY DETAILS

INVESTMENT STYLE:	*International Equity*
EQUITY SUB-STYLE:	*Value-oriented*
BENCHMARK:	*MSCI EAFE*
GIMA STATUS:	*Focus List*
PRODUCT TYPE:	*Separately Managed Account*

www.lazardnet.com

STRATEGY DESCRIPTION

The Lazard International Select ADR has a value-oriented process that is bottom-up driven. The portfolio is seeking profitable companies selling at a discount relative to their historical valuations.

Summary of Opinion

- Global Investment Manager Analysis (GIMA) has placed the Lazard International Equity Select ADR portfolio on the Focus List due to GIMA's high opinion of this strategy. GIMA considers Lazard's International Select team of investment professionals led by Michael Fry to be above average.
- In 2010, the strategy underwent some changes to both the portfolio management team as well as the portfolio construction process. Michael Fry was added as the lead portfolio manager while Gabrielle Boyle, the previous lead portfolio manager, left the firm.
- The changes to the strategy included better execution of the investment process; a more diversified portfolio, although still somewhat concentrated; and enhanced utilization of the firm's fundamental research resources. GIMA believes that these changes have been instrumental in improving performance and giving the strategy greater potential to outperform in both up and down markets.
- LAM's investment philosophy is built on the tenet that value can be added by investing in financially productive companies with above-average Return on Equity and Return on Asset11466s. GIMA believes the firm's investment process has remained consistent over time and that the investment process, at times, may be hindered by having a longer-than-average holding period for its stocks.

Focus List		Snapshot				
Investment Capabilities	**Business Evaluation**	**Short-Term Performance Analysis (≤ 3Yrs)**	**Long-Term Performance Analysis (> 3 Yrs)**	**Track Record Reliability**	**Expected Benchmark Sensitivity**	**Expected Portfolio Turnover**
Above Average	Above Average	**Above Expectations**	**Above Expectations**	High	High	High
Average	**Average**	In-Line	In-Line	Moderate	**Moderate**	**Moderate**
Needs Improvement	**Needs Improvement**	Below Expectations	Below Expectations	**Low**	Low	Low

Source: GIMA
See Opinion Description at the end of this report.

Positive Attributes

- Deep investment professional team compared to most international managers in GIMA's universe.
- Accounting validation to verify financials and seek out hidden value is this manager's trademark for fundamental research.

Points to Consider

- Investment approach can lead to substantial country and regional allocation differences from the benchmark index.
- The portfolio will typically have no exposure to emerging markets.
- Portfolio holdings range changed from 30 - 45 names to 40 - 60 names with the change in management in 2010.
- The process remains the same as the previous portfolio management team; however, there have been some changes to the portfolio construction process leading to better execution of the investment process.

Areas of Concern

- Over the last several years, there have been several changes within LAM that have caused concern to GIMA. In particular, LAM has experienced a high level of turnover at all levels of the organization. To LAM's credit, GIMA feels that LAM has taken significant strides in attempting to reduce turnover.

Performance Expectations

- Investors should be aware that when the market environment is more speculative, or when small- or mid-cap stocks are dominating the market, GIMA would expect this portfolio to underperform the benchmark. However, GIMA would expect this portfolio to outperform in a market environment dominated by high-quality, large-cap companies.

Performance Opinion

- Performance for both shorter-term and longer-term periods is above GIMA's expectations. The portfolio has performed well since the portfolio management change in 2010. Prior to the portfolio management changes, the portfolio could defend on the downside; however, it was difficult for the portfolio to add value when markets were moving upward. Since the portfolio management changes, the new team has also been able to outperform in up markets.
- GIMA has more confidence in the new portfolio management team and its ability to add value for clients.

News Summary

- September 2014 – Mark Anderson joined the firm as Chief Compliance Officer and Regulatory Counsel.
- July 2014 – Brian Simon, Director of Legal Affairs and Chief Compliance Officer, left the firm. Lazard has identified a new Chief Compliance Officer, who is expected to join the firm in September 2014.
- 3/2013 – GIMA status changed from Approved to Focus.
- 5/2010 – Departure of Gabrielle Boyle as lead portfolio manager. Ms. Boyle was replaced by Michael Fry who has been at Lazard since 2005.

Additional Analyst Comments

- None at this time.

Additional News Summary

- None at this time.

Portfolio Traits

Equity	
Range of Holdings	40-60
Maximum Position Size	5%
Econ Sector Constraints	The strategy is not managed to an index, typically each sector allocation may range from 0% to +15% of the index weight
Country Constraints	The strategy is not managed to an index, typically each country allocation may range from 0% to +15% of the index weight
Emerging Mkts Constraints	0%
Currency Hedging	No
Tracking Error Target	Range typically 4-6%
Typical Annual Turnover	0-45%
Invests in ADRs	Yes
Invests in ETFs	Yes
Invests in Derivatives	No
Invests in IPOs	No
Liquidity Constraints	Generally $5 billion or greater market capitalization
Maximum Cash	10%
Typical Cash Position	Typically 3 - 5%
Est. Product Capacity	Not stated

Source: Lazard

Investment Capabilities Overview

Portfolio Management Team

- Lazard Asset Management restructured the International/Global Equity Select teams due to the departure of lead portfolio manager Gabrielle Boyle. Ms. Boyle resigned to pursue other interests. As part of the restructuring, Adam Cohen, who worked closely with Ms. Boyle as a portfolio manager, no longer works on these strategies. Michael Fry replaced Ms. Boyle as lead portfolio manager on the International Equity Select strategies. Mr. Fry has over 30 years of investment experience and has worked at Lazard since 2005. Portfolio managers Michael Bennett and Michael Powers remain on the consensus International Select team and are joined by Kevin Matthews, who assumed the role of portfolio manager. Mr. Matthews has been a global research analyst since joining Lazard in 2001.
- LAM's equity products are supported by the firm's Global Research Platform, which is organized into six sector teams and has analysts located in New York and London. The product team leverages off the Global Research Platform, but strategy team members also have specific security analysis responsibilities.
- The portfolio managers for the International Equity Select strategy do not function as research analysts. Their role is to leverage the ideas from Lazard's global research platform of analysts and select securities that meet their specified criteria. The portfolio managers are actively involved in the discussions surrounding the research for their portfolios.

Investment Philosophy & Process

- LAM's philosophy is based on their bottom-up, relative value-oriented security selection process, which employs accounting validation through internal research.
- Security selection focuses on identifying companies that exhibit financial productivity given their high return on equity or return on assets, while their stock price is inexpensive relative to the market, industry or sector based on book value, assets, sales, earnings or cash flow.
- The process begins with a "valuation screening" of various international (covering over 5,000 ordinary ("ORD") and 1,600 ADRs) databases to determine which are undervalued relative to the particular economic sector or industry, local country index and world index. The International Select portfolio holds only ADRs.
- The screens attempt to identify undervalued stocks by applying their "valuation equation," which utilizes cash flow return on equity, price and book value for the company relative to the world, local and possibly the industry index.
- The surviving stocks (approximately 1,200) are then subjected to an accounting validation. At this stage, the research analysts 1) confirm that each company's financial statement and productivity figures are accurately stated; 2) search for pricing anomalies; and 3) attempt to uncover hidden value.
- At this stage, the analysts conduct fundamental analysis, which may include sustainability of returns, identifying a catalyst for change, quality and depth of management, competitive positioning, margin and sales trends, as well as the macro environment.
- The most attractive stocks are considered "buys" by research and are contained in a model. The "buys" are presented by the team of analysts to the portfolio management team for consideration. The group arrives at a as to whether a particular stock should be added, and then, if necessary, which stock should be sold to raise funds for purchase of the new holding.

Summary of Investment Capabilities Opinion

- LAM's investment philosophy is built on the tenet that value can be added by investing in financially productive companies with above-average Return on Equity and Return on Assets, which may be trading at a discount to their industry peers, country averages or historical averages.
- In GIMA's opinion, due to the emphasis placed by portfolio managers and researchers on finding companies with sustainable Return on Equity, LAM's investment process tends to have a strong quality bias.
- Overall, GIMA feels this investment process tends to be very simplistic, yet potentially effective if implemented well. GIMA believes that the firm's investment process has remained consistent over time. In addition, Lazard's higher-quality bias has a tendency to avoid various sectors in the markets, thus leading to a more limited opportunity set.

Other Key Items

Decision-Making

- The portfolio is run by a team of portfolio managers; however, Michael Fry has final decision-making authority if needed.

Sell Process

- Lazard is expected to sell a stock when any of the following four factors are perceived:
- Target price is reached; a better idea is available; fundamentals begin to fail and the underlying investment assumptions are no longer valid; the stock violates its maximum position weight (sold or trimmed).

Track Record Reliability

- The track-record reliability is considered low due to the departure of Gabrielle Boyle in 2010. Mrs. Boyle was supported by Mr. Bennett and Mr. Powers, who remain on the team.

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Michael Fry	Portfolio Manager	Global & International Equity		Flinders Univ.	1981	2005	2010
Michael Bennett	Portfolio Manager	Global & International Equity		Univ. of Chicago	1987	1992	2002
Kevin Matthews	Portfolio Manager	Global & International Equity	●		2001	2001	2010
Michael Powers	Portfolio Manager	Global & International Equity		Long Island Univ.	1990	1990	1994

Source: Lazard, GIMA

Other Key Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Ashish Bhutani	CEO	---		Pace Univ.	1985	2003	---
Mark Anderson	CCO	---		Vanderbilt Univ.	1997	2014	---
John Reinsberg	Deputy Chairman	International & Global Equity		Columbia Univ.	1981	1992	2001

Source: Lazard, GIMA

Primary Functions of Key Professionals

Name	Security Selection	Security Research	Portfolio Construction	Trading	Client Service	Business Management
Michael Fry	●	●	●			●
Michael Bennett	●	●	●			
Kevin Matthews	●	●	●		●	
Michael Powers	●	●	●			
John Reinsberg						●
Ashish Bhutani						●
Mark Anderson						●

Source: Lazard, GIMA

Business Structure Overview

History/Ownership

- In 1848, three brothers, Alexandre, Simon, and Lazare formed the company now known as Lazard Freres & Co. LLC (LF&Co.). Now a New York limited liability company, LF&Co. has developed a worldwide presence in multiple facets of the investment business.
- The firm considers asset management to be an essential part of this business. On January 13, 2003, Lazard Asset Management reorganized its legal form, becoming a separate legal entity and subsidiary of LF&Co. The New York-based firm is the parent for the firm's asset management business globally.

Business Plan

- LAM also created two executive groups, Investment Council and Investment Oversight Committee, which were constructed to absorb many of Mr. Gullquist's CIO functions, such as facilitating the interaction between the Lazard's investment departments and overseeing the broad product platform. Furthermore, LAM also created the position of Deputy Chairman, and appointed three members in this role. Charles Carroll (prime responsibility-Global Marketing), Andrew Lacey (prime responsibility - U.S. & Global products) and John Reinsberg (prime responsibility (International & Global products). All these members report into Mr. Bhutani who, in turn, reports directly into Kenneth Jacobs, CEO of Lazard Ltd. who has replaced Bruce Wasserstein after his passing in 2009.

Legal/Compliance

- In September 2012, NASD commenced an onsite examination of Lazard, focusing on its financial reporting processes. The exam has been completed and according to the firm, Lazard Asset Management Securities LLC made certain minor changes to its procedures to address NASD's comments.
- In September 2012, the SEC commenced an onsite examination of Lazard. According to Lazard, there are no outstanding issues resulting from the exam.

Summary of Business Structure Opinion

- Overall, LAM is a large and well-resourced money management firm that employs a large number of high-quality seasoned investment professionals. In addition, it has an extensive network of research professionals around the globe, which is supported by a strong administration, sales and marketing infrastructure.
- However, over the last several years there have been several changes within LAM that have caused concern to GIMA. In particular, LAM has experienced a high level of turnover at all levels of the organization. To LAM's credit, GIMA feels that LAM has taken significant strides in attempting to reduce turnover by introducing an equity plan, implementing a more transparent and robust compensation structure and by recognizing and promoting key investment professionals.

Other Key Factors

Incentives/Alignment of Interests

- According to the firm, LAM compensates key investment personnel by a competitive salary and bonus structure, which is determined both quantitatively and qualitatively. The quantitative factors include performance relative to benchmark, performance relative to applicable peer group, absolute return and assets under management. The qualitative factors include leadership, mentoring and teamwork.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Lazard Freres & Co	100%
Publicly Traded	**Ticker Symbol**
Yes	LAZ

Source: Lazard

Assets Under Management ($ Millions)

Year	Firm	Product
1Q15	$180,004	$4,173
2014	$178,361	$3,857
3Q13	$167,544	$3,462
2012	$146,013	$2,542
2011	$127,007	$2,482
2010	$140,574	$3,367
2009	$116,456	$4,417

Source: Lazard

OPINION OVERVIEW DESCRIPTION

Investment Capabilities – Represents GIMA's (Global Investment Manager Analysis) opinion of the investment manager's investment capabilities with respect to the product under evaluation. This section covers the areas of quality of investment professionals, portfolio management, research and process execution. As these areas are not mutually exclusive, but rather interrelated, it is important to render a cohesive opinion on these areas of an organization. This section has three potential opinion outcomes: **Above Average, Average** and **Needs Improvement**. **Above Average** conveys that GIMA has a high degree of confidence and conviction in a manager's investment capabilities. An opinion of **Average** denotes that, while GIMA has a generally favorable view, it may have some concerns about the investment manager's investment capabilities. An opinion rating of **Needs Improvement** generally indicates that GIMA has material concerns about the investment manager's overall investment capabilities. For example, this could be the result of sizable personnel departures, poor execution of stated investment discipline or a limited research effort.

Business Evaluation - Represents GIMA's opinion of the state of the investment manager's overall business condition. This area reviews items such as ownership structure, trends in assets under management, legal and/or compliance issues, investment professional incentives and trading policies. This area has three potential opinion outcomes: **Above Average, Average** and **Needs Improvement**. **Above Average** conveys that GIMA has a high degree of confidence and conviction in a manager's overall business structure and believes that there are limited to no material issues. An opinion of **Average** denotes that, while GIMA has a generally favorable view, it may have some concerns about the investment manager's business structure. An opinion rating of **Needs Improvement** generally indicates that GIMA has material concerns about the investment manager's overall business structure. For example, this could be the result of what we believe to be material legal and/or compliance issues, material asset loss, ownership issues or ineffective incentives for the investment professionals.

Short-Term & Long-Term Performance Analysis – The opinion for performance is broken into two components: 1) Short-Term Performance Analysis represents GIMA's opinion of the investment product's performance typically over a time period of the trailing three years or less, 2) Long-Term Performance Analysis represents GIMA's opinion of the investment product's performance typically over a time period of more than the trailing three years. These areas have three potential opinion outcomes: **Above Expectations, In-Line** and **Below Expectations**. **Above Expectations** conveys that GIMA believes the investment product has performed better than expected given investment biases and market conditions, while an opinion of **In-Line** denotes that GIMA believes the investment product has performed as expected given investment biases and market conditions. A rating of **In-Line** should not be interpreted negatively, but rather that the investment product is performing as expected. An opinion rating of **Below Expectations** generally indicates that GIMA has concerns about the investment product's overall investment performance given our knowledge of the investment manager's process and the overall market conditions.

Track Record Reliability – Represents GIMA's opinion of the overall integrity of the investment performance displayed to clients or potential clients. This area takes into consideration items such as portfolio manager tenure on a respective strategy, construction of the performance composite, and consistency in the execution of a stated investment process. This area has three potential opinion outcomes: **High, Moderate** and **Low**. **High** conveys that GIMA believes the investment performance track record has a high degree of integrity and is representative of what investors could expect over time, while an opinion of **Moderate** denotes that GIMA may have some concerns as it relates to the historical performance track record. An opinion rating of **Low** generally indicates that GIMA has material concerns about the investment product's historical performance track record. For example, if an investment product has had a long standing portfolio manager that has delivered solid performance results over the last five years relative to a benchmark and the portfolio manager is replaced by a new portfolio manager that instills a new investment process, GIMA may consider the historical performance track record to be non-representative of the new investment discipline.

Expected Benchmark Sensitivity – Represents GIMA's opinion of how closely an investment product's performance is expected to "track" the investment performance of GIMA's designated performance benchmark for a particular investment product. This area evaluates the historical investment performance tracking of a given investment product relative to a respective benchmark as well as the investment manager's current approach to active portfolio management. In evaluating benchmark sensitivity, GIMA will use relevant statistical measures such as tracking error and R-Squared as well as portfolio construction guidelines such as economic sector constraints and benchmark relative position sizing. This area has three potential opinion outcomes: **High, Moderate** and **Low**. In GIMA's opinion, **High** conveys that a product is anticipated to be managed with a high degree of emphasis on its benchmark with relatively tight control over the product's active weights relative to that benchmark. High benchmark sensitivity does not mean wide deviations from the benchmark will not happen, but that the investment manager seeks to reduce them. **Moderate** conveys that a product's management is anticipated to have some amount of benchmark sensitivity, but is able to make meaningful, but controlled, allocations away from a benchmark. **Low** denotes that a product places little to no emphasis on its assigned benchmark. Performance from a month-to-month and year-to-year basis may deviate significantly from its benchmark.

Expected Portfolio Turnover - Represents GIMA's opinion of how actively the portfolio is managed from the perspective of trading activity (purchases, sales, additions, trims, etc.). We do not view these ratings positively or negatively, but render an opinion for this category so Financial Advisors or Private Wealth Advisors and clients have some idea as to the overall level of activity that takes place in a given portfolio. High activity may result in a portfolio that is less tax-efficient for taxable clients, whereas Low activity may result in a more tax efficient portfolio for taxable clients. This area has three potential opinion outcomes: **High, Moderate** and **Low**. In GIMA's opinion, **High** conveys an investment product that is likely to have more than 90% turnover on an annual basis, while **Moderate** indicates expected annual portfolio turnover in the range of 30% - 90% and **Low** indicates expected annual portfolio turnover of less than 30%.

DEFINITIONS

Sub-Styles: Subjective classifications designed to assist with manager selection and performance evaluation based on GIMA's understanding of a manager's long-term investment philosophy and portfolio structuring biases and techniques. At points in time managers may display attributes of other sub-style classifications, and these classifications may change due to changes in the capital markets, evolution of performance benchmarks, industry trends, or changes involving a manager's personnel or process.

Value-Oriented: Tend to have a more value-oriented investment philosophy and portfolio orientation often placing valuation concerns above either benchmark structure or growth characteristics and may exhibit less volatility than peers.

MSCI EAFE Index - The Morgan Stanley Capital International Europe, Australasia, and Far East (MSCI EAFE) Index is composed of all the publicly traded stocks in developed non-U.S. Markets. The MSCI EAFE Index consisted of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

IMPORTANT DISCLOSURES

Report for Use Only in Investment Advisory Programs
This report is only to be used in Morgan Stanley Wealth Management investment advisory programs and not in connection with brokerage accounts.

The Global Investment Manager Analysis (GIMA) services Only Apply to Certain Investment Advisory Programs
GIMA evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Smith Barney LLC's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any GIMA status changes even though it may give notice to clients in other programs.

Focus List, Approved List and Tactical Opportunities List; Watch Policy
GIMA uses two methods to evaluate investment products in applicable advisory programs: Focus (and investment products meeting this standard are described as being on the Focus List) and Approved (and investment products meeting this standard are described as being on the Approved List). In general, Focus entails a more thorough evaluation of an investment product than Approved. Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

GIMA has a 'Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved." The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager or fund to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" next to the "Status" on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a publication entitled "Manager Selection Process."

No Obligation to Update
Morgan Stanley Wealth Management has no obligation to update you when any information or opinion in this report changes.

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.

Consider Your Own Investment Needs
This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Performance and Other Portfolio Information

General

Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

Benchmark index

Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

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

Other data

Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings

Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data

Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

Asset Class and Other Risks

Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

International securities may carry additional risks, including foreign economic, political, monetary and/or 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***.

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

Value and ***growth investing*** also carry risks. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. 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.

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

No Tax Advice

Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors do not provide legal or tax advice. Each client should always consult his/her personal tax and/or legal advisor for information concerning his/her individual situation and to learn about any potential tax or other implications that may result from acting on a particular recommendation.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

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.

Renaissance International Equity ADR

APPROVED LIST REPORT

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STRATEGY DETAILS

INVESTMENT STYLE:	*International Equity*
BENCHMARK:	*MSCI ACWI ex US*
GIMA STATUS:	*Approved List*
PRODUCT TYPE:	*Separately Managed Account*

http://www.reninv.com

STRATEGY DESCRIPTION

The Renaissance International ADR strategy is considered a more conservative, high-quality growth product. The team looks for sustainable fundamental growth characteristics; positive earnings revision and price momentum at a reasonable valuation in companies outside the US.

Summary of Opinion:

- Global Investment Manager Analysis (GIMA) has a positive view of Mr. Bruening's tenure as lead portfolio manager on this strategy and believes that the process has been consistently implemented over time.
- The firm invests in "growth" companies and the investment process is considered GARP ("Growth at a Reasonable Price") oriented. The process relies heavily on the quantitative screens that the firm has had in place for some time. These screens help the investment team focus on a smaller universe of international securities. The team conducts fundamental research after the screening process.
- This fundamental research relies heavily on third party or Wall Street research, which occasionally can be biased. The team does not conduct in-person one-on-one company meetings when conducting their fundamental research, which at times may not provide sufficient insight into the organizational/operational aspects of a company.
- Due to the nature of the investment process investors should be aware that the portfolio can look significantly different then the benchmark from a sector, country or regional perspective.

Positive Attributes

- Tenured portfolio manager who has managed the strategy since 2000.
- All of the key investment professionals own equity in the firm.
- Low investment professional turnover.

Points to Consider

- Growth at a price (GARP) investment style.
- Renaissance uses a quantitative screening process with a fundamental overlay to pick stocks for the portfolio.
- The strategy can have up to 33% in emerging markets.
- Fairly small investment team relative to peers.
- Approximately 70% of the process is quantitative while the remaining 30% is fundamental research.
- Due to the bottom-up portfolio construction, the portfolio may deviate significantly from the benchmark regarding its sector, country or regional positioning.

Areas of Concern

- The current level of fundamental research is not as extensive.

News Summary

- 4Q 2014 – Kevin Patton, Chief Compliance Officer, and Eric Aber, co-PM of the REIT strategy, became new partners at the firm.
- 4Q 2013 – Michael Streitmarter transitioned from the retail separately managed account portfolio administration group to become a research analyst on the International strategies effective January 2014.
- 3Q 2013 – Eric Strange increased his equity stake in the firm to 1%. In addition Andy Temming, research analyst on the International products, and Carey Kruer, Director of Client Services, became new partners in the firm.
- 1Q 2012 – Joe Bruening and Sudhir Warrier increased their equity ownership in the firm from 1.5% for each of them to 2.9% and 1.9%, respectively. As a result, AMG's ownership decreased from 79.4% to 78.0%. Mike Schroer and Paul Radomski's equity decreased by 0.2%. The dilution of their equity was a result of the issuance of the new shares.

Additional Comments

- The strategy will use both listed ADRs as well as over-the-counter ADR's, both sponsored and unsponsored.

Portfolio Traits

	Equity
Range of Holdings	50-60
Maximum Position Size	Each of the securities receives an initial equal weight in the portfolio. Individual stocks are rebalanced for tax exempt clients whenever their weightings at market reach twice the initial weight, resulting in the security being trimmed back and the proceeds re-invested in underweighted positions. Taxable clients are contacted if taxable account holdings reach a 10% portfolio weighting.
Econ Sector Constraints	No more than 40% in any one sector/industry
Country Constraints	Each portfolio typically represents 20-25 countries. In general, the process is bottom-up and the team does not attempt to match any benchmark weightings.
Emerging Mkts Constraints	33% maximum exposure to Emerging Markets, typically 25-33%.
Currency Hedging	No
Tracking Error Target	No target
Typical Annual Turnover	50-100%
Invests in ADRs	Yes
Invests in ETFs	Yes
Invests in Derivatives	No
Invests in IPOs	No
Liquidity Constraints	Either a minimum ADTV (average daily trading volume) of $500k in the U.S. **or** a minimum ADTV of $200k in the U.S. and $1m in the local market.
Maximum Cash	2%
Typical Cash Position	Typically less than 2%
Est. Product Capacity	$3-4 billion for the strategy

Source: Renaissance

Investment Capabilities Overview

Portfolio Management Team

- The investment team consists of one portfolio manager, Joe Bruening and two research analysts, Andrew Temming and Michael Streitmarter. Mr. Bruening has been with the firm since 1998 and has been lead portfolio manager on this product since 2000.
- Mr. Bruening is a senior partner of the firm, the lead portfolio manager for the firm's international equity portfolios and has over 25 years of investment experience. Prior to joining Renaissance Mr. Bruening was a securities trader at Fifth Third Bank.
- Mr. Temming is a partner at the firm and joined the strategy in March 2008 as an analyst. Prior to joining Renaissance, Mr. Temming was an associate portfolio manager and research analyst at Cincinnati Financial Corporation. Mr. Temming has a MBA in Accounting from Xavier University.
- Mr. Streitmarter joined the strategy in December 2013 as a research analyst. Prior to joining the strategy Mr. Streitmarter was a portfolio administrator for the firm supporting all of the strategies at the firm.

Investment Philosophy & Process

- Renaissance uses a quantitative screening process with a fundamental overlay to pick stocks for the portfolio. The investment team focuses on attractively priced securities that have above-average profitability, historical growth in sales and earnings, and positive earnings estimate revisions.
- The investment process consists of three distinct stages:
    - The initial screening process begins with approximately 2,700 ADRs and US listed shares of foreign corporations. Companies are selected that have either at least $500,000 average daily trading volume in the U.S. or at least $200,000 average daily trading volume in the U.S. with at least $1 million in their local market, financial statements that reconcile to US accounting standards (US GAAP) or prepare under IFRS and are traded in US dollars. The team utilizes Compustat data for its screening process. The team indicated that approximately 70% of the process is quantitative while the remaining 30% is fundamental research.
    - In this next stage approximately 600 stocks are given further consideration. These companies are subjected to a quantitative scoring process. This process ranks stocks based on growth, profitability, future earnings expectations and valuation. Only companies in the top 20% of the ranking are considered eligible as buy candidates. The factors that are incorporated into the screening process are below:
        - Growth factors – cash flow growth, net income growth, price momentum, historic profitability. Growth factors represent approximately 40% of the screening process.
        - Earnings momentum – change in consensus estimates, change in non-consensus estimates, forward earnings yield. Earnings momentum represents 30% of the screening process.
        - Valuation factors –P/CF, EV/EBITD, P/Sales. Valuation factors represent 30% of the screening process.
    - At this stage fundamental, qualitative analysis begins. Each company ranked in the top quintile is analyzed by the investment team. The team will focus on fundamentals, business environment and momentum, business strategy and macro/political issues. The team relies on Wall Street research as well as other third party research firms for the majority of its fundamental research. The investment team does not visit potential buy candidates.
- This process identifies the top 50-60 most attractive securities.

Other Key Items

Decision Making

- Joe Bruening is the lead portfolio manager for all the international strategies at the firm. He is responsible for research and implementation on the strategies and therefore makes all final decisions.

Sell Process

- Stocks are sold due to their ranking relative to other stocks in the universe. Holdings that fall into the bottom three quintiles are automatically sold.
- Stocks in the 2nd quintile may be reviewed and either held in the portfolio or sold. Fundamental research is utilized at this point to make the determination.

Track Record Reliability

- Mr. Bruening has been a portfolio manager on this strategy since November 2000. The portfolio was incepted in 1994. Michael Schroer, Managing Partner, worked on this portfolio prior to Mr. Bruening taking on the lead portfolio management role. Mr. Schroer is considered a back-up to Mr. Bruening, if needed.

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Joe Bruening	Lead Portfolio Manager	International	●	Xavier	1987	1998	2000
Andy Temming	Research Analyst	International	●	Xavier	2002	2008	2008
Michael Streitmarter	Research Analyst	International	●		2008	2008	2014

Source: Renaissance, GIMA

Business Structure Overview

History/Ownership

- Renaissance was founded in 1978 as a manager of balanced and tactical asset allocation portfolios for both institutional and individual clients. In 1995, Renaissance partnered with Affiliated Managers Group ("AMG") to buy out the original founders of the Company. AMG is a holding company for investment management firms across a broad range of investment styles and more than 300 investment products.
- Michael Schroer and Paul Radomski own the majority of the equity outside of AMG and in 2003, Mary Meiners, Sudhir Warrier, and Joe Bruening became partners in the firm. In January 2010, Eric Strange also became a partner in the firm.
- The firm has added various investment products over time and currently offers Large Cap Growth, International Equity, Emerging Markets, Midcap Growth, and Small Cap Growth products, as well as the original Balanced and Tactical Asset Allocation portfolio management products.

Business Plan

- The firm will continue to share equity among its employees when deemed appropriate. The years of 2013, 2012 and 2010 are an example of such equity ownership distribution as referred to above.
- The firm seeded an international small cap product approximately 7-8 years ago and has started to market the product. The firm also has an Emerging Markets and a global growth strategy that have both seeded.

Legal/Compliance

- According to the firm, the last SEC examination was in March 2008. There were minor deficiencies which were addressed by amending the firms ADV Part I.
- According to the firm, there are currently no legal issues pending.

Other Key Factors

Incentives/Alignment of Interests

- Employees are compensated by both salary and bonus arrangements. Bonuses are paid based on merit and individual goals, which are determined by the Managing Partners. For analysts, stock recommendations and investment returns are the largest factor for determining bonuses.
- The Managing Partners are compensated two ways;
- The first is tied to ownership of the firm; all partners receive dividend distributions, which are allocated to the Partners based on their ownership shares.
- Profit Sharing; the Managing Partners split between the two of them all residual profits. According to the firm, residual profits of the firm are equal to its revenue less all dividend distributions, compensation and other operating expenses.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Michael Schroer, Managing Partner	7.6%
Paul Radomski, Managing Partner	7.6%
Joe Bruening, Senior Partner	2.8%
Sudhir Warrier, Senior Partner	1.9%
Eric Strange, Parter	1.1%
Mary Meiners, Partner	1.0%
Andy Temming, Partner	0.5%
Carey Kruer, Partner	0.5%
Kevin Patton, Partner	0.5%
Eric Aber, Partner	0.5%
Affiliated Managers Group (AMG)	76.1%
Publicly Traded	**Ticker Symbol**
No	

Source: Renaissance, GIMA

Assets Under Management ($ Millions)

Year	Firm	ADR
2014	$4,204	$1,144
2013	$3,958	$1,068
2012	$3,380	$942
2011	$3,698	$866
2010	$4,634	$1,067
2009	$5,263	$805
2008	$5,124	$433

Source: Renaissance, GIMA

DEFINITIONS

MSCI AC World Index Ex USA - The MSCI ACWI (All Country World Index) ex USA Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets excluding the United States.

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

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Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

IMPORTANT DISCLOSURES

Report for Use Only in Investment Advisory Programs
This report is only to be used in Morgan Stanley Wealth Management investment advisory programs and not in connection with brokerage accounts.

The Global Investment Manager Analysis (GIMA) services Only Apply to Certain Investment Advisory Programs
GIMA evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Smith Barney LLC's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any GIMA status changes even though it may give notice to clients in other programs.

Focus List, Approved List and Tactical Opportunities List; Watch Policy
GIMA uses two methods to evaluate investment products in applicable advisory programs: Focus (and investment products meeting this standard are described as being on the Focus List) and Approved (and investment products meeting this standard are described as being on the Approved List). In general, Focus entails a more thorough evaluation of an investment product than Approved. Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

GIMA has a 'Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved." The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager or fund to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" next to the "Status" on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a publication entitled "Manager Selection Process."

No Obligation to Update
Morgan Stanley Wealth Management has no obligation to update you when any information or opinion in this report changes.

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.

Consider Your Own Investment Needs

This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Performance and Other Portfolio Information

General

Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

Benchmark index

Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

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

Other data

Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings

Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data

Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

Asset Class and Other Risks

Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

International securities may carry additional risks, including foreign economic, political, monetary and/or 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***.

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

Value and ***growth investing*** also carry risks. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. 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.

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

No Tax Advice

Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors do not provide legal or tax advice. Each client should always consult his/her personal tax and/or legal advisor for information concerning his/her individual situation and to learn about any potential tax or other implications that may result from acting on a particular recommendation.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

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.

Pacific Income Advisers Limited Duration

APPROVED LIST RESEARCH REPORT

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STRATEGY DETAILS

INVESTMENT STYLE:	*Intermediate Term Core Fixed Income*
BENCHMARK:	*Barclays Intermediate Gov't/Credit Index*
CG IAR RESEARCH STATUS:	*Approved List*
PRODUCT TYPE:	*Separately Managed Account*

www.pacificincome.com

STRATEGY DESCRIPTION

PIA Limited Duration strategy seeks to add alpha through duration/yield curve and sector allocation decisions. The firm thinks that the various yield curve sectors are periodically unbalanced, which leads to mispricing. The strategy seeks to capitalize on these opportunities to earn above-average risk-adjusted yields, while creating the potential for capital gains if these sectors return to PIA's estimate of their fair value.

Summary of Opinion:

- Consulting Group Investment Advisor Research (CG IAR) thinks the Pacific Income Advisers (PIA) Limited Duration strategy may be appropriate for investors seeking a conservative, high-quality portfolio focused on intermediate investment-grade fixed income securities.
- The strategy invests in Treasury, agency, and corporate securities, and also invests in two no-fee, proprietary funds to diversify among BBB-rated corporate issues (BBB Fund) and MBS securities (MBS Fund). Generally, this strategy will have less than 20% of assets in these commingled funds.

Positive Attributes

- Experienced core team of fixed income professionals (have worked together for 15+ years) emphasize quantitative portfolio management and research.
- The firm's quantitative research effort is based on a proprietary database that allows the firm to identify yield curve shape anomalies within various maturity/duration sub-sector buckets.

Points to Consider

- The strategy invests in Treasury, agency, and corporate securities, and also invests in two no-fee, proprietary funds to diversify among BBB-rated corporate issues (BBB Fund) and MBS securities (MBS Fund). Generally, the strategy will have less than 20% of portfolio assets in these commingled funds (maximum 50%), which are not offered to the public and used exclusively within the firm's separately managed account program.
- The largely quantitative investment process does not require extensive resources in credit research.
- The fund does not use derivatives.
- There is the potential for conflict of interest between PIA and an affiliate company, Anworth Mortgage Asset Corporation (ANH), a mortgage REIT. The key executives and investment professionals of ANH also work for PIA.

Areas of Concern

- Ownership of the firm remains concentrated with the original founders. At the time of this writing, the firm has no formal succession plan.
- Since PIA is a relatively small firm with a concentrated team of investment professionals, the loss of any of those individuals will be considered material.
- The use of commingled vehicles may allow for greater diversification but they remove a degree of transparency.

News Summary

- February 2011 – Director of Convertible Securities George Froley joined PIA from GAMCO Investors, Inc. where he served as a consultant. From 1975 to 2005, Mr. Froley was principal and founder of Froley Revy Investment Co., Inc. and served as consultant to the successor firm until 2007.

Additional Comments

- The BBB Fund (inception 09/2003) seeks to replicate the BBB segment of the Barclays U.S. Credit Index. PIA uses the fund to gain BBB exposure while reducing issue-specific risk in the portfolios. PIA buys issues rated BBB by at least one rating agency and typically holds 70-90 securities.
- The MBS Fund (inception 2/2006) seeks to replicate the fixed rate component of the Barclays U.S. MBS Index, but may at times invest in high quality ABS, CMBS and agency CMO securities. PIA uses the fund to gain mortgage sector exposure while reducing issue-specific risk in the portfolios, typically holding between 80 and 120 securities.
- Given the strategy is benchmarked to the Barclays Intermediate Government/Credit Index, investors should expect mortgage exposure, primarily from the MBS Fund to be less than 10% of assets.
- According to PIA, new accounts are constructed with government securities to reduce transaction costs and establish the desired portfolio duration. The firm claims that portfolios take up to three months to be fully seasoned in the model portfolio.

Portfolio Traits

Fixed Income	
Range of Holdings	30-40 (commingled funds counted as one holding each)
Max Single Issue (non-U.S. government issuer)	Except for securities issued by the U.S. government, its agencies, and PIA managed commingled funds, no more than 3% of the portfolio shall be invested in securities of any one issuer at the time of purchase.
Duration Range	3.0 - 4.5 years
Maturity Range	0-30 years
Min Avg Credit Quality	Generally at least AA
Min Indiv Credit Quality	BBB
Typical Annual Turnover	40-90%
Invests in Derivatives	Not utilized in retail separate managed accounts. Unless specifically allowed by client investment guidelines, PIA generally does not utilize derivatives in institutional accounts.
Invests in Muni Bonds	No

Source: PIA, CG IAR

Sector Range (%)	Min	Max	Normal
Treasuries/Agencies	25	100	40-70
Pass-Throughs/MBS	0	20	0-10
CMBS/Asset-Backed	0	20	0-5
Inv Grade Corp	20	65	30-50
Below BBB	0	0	0
Foreign-Developed	0	0	0
Foreign-Emerging	0	0	0
Cash	0	10	0-5

Source: PIA, CG IAR

Investment Capabilities Overview

Portfolio Management Team

- The portfolio management team is comprised of CIO Lloyd McAdams, co-heads Evangelos Karagiannis and Daniel Meyer, and Timothy Tarpening. They are supported by a team of six portfolio analysts and fixed income credit generalists, responsible for identifying attractive credits within the perceived undervalued sectors. The entire team consists of 10 investment professionals dedicated to domestic investment grade fixed income investments.
- Lloyd McAdams has been the Chairman of the Board and CIO of PIA since its formation. As Chairman of the Bond Strategy Group, Mr. McAdams is responsible for investment strategy formulation oversight and execution.
- Evangelos Karagiannis is responsible for much of PIA's quantitative processes and Co-Head of Investment Grade Bond.
- Daniel Meyer is a SMA portfolio manager and Co-Head of Investment Grade Bond responsible for retail SMA accounts. He previously served as a credit analyst/underwriter at CSFB, finance manager at Equity Marketing, Inc., and senior associate of Arthur Anderson LLP.
- Timothy Tarpening serves as the Senior Portfolio Strategist. He previously served as a sales representative for Drexel Burnham Lambert and investment officer with PaineWebber.
- The firm's Macro Strategy Group consists of Evangelos Karigiannis, Dan Meyer, and Tim Tarpening. This group develops strategic investment decisions for all fixed income strategies, and reports directly to Lloyd McAdams.

Investment Philosophy & Process

- The firm holds that the natural shape (equilibrium) of a yield curve gradually slopes upward. PIA believes that when the yield curve, or segments of the curve, deviates from equilibrium, it tends to revert to its normal equilibrium shape over time, presenting excess return opportunities.
- PIA believes the shape of the yield curve is frequently distorted due to Monetary Policy (the Fed)—impacting the front end of the curve, and Global inflationary expectations for the U.S. economy—impacting the long end of the curve.
- PIA seeks to exploit perceived inefficiencies through proprietary quantitative models and fundamental research. In order of importance, PIA expects to add value through the following areas of fixed income portfolio management:
- **Yield Curve Analysis** - PIA claims to conduct quantitative analysis using their proprietary bond market database with a focus on identifying relative value among 75 curves representing the domestic fixed income universe.
- **Sector Selection** - The Bond Strategy Group risk-adjusts sector valuation data, identifying sectors providing optimal risk-adjusted yields. Treasuries, agencies, mortgages, corporates and asset-backed securities are analyzed, and subdivided by maturity and credit rating into a total of 75+ sub-sectors. Sectors are scored and ranked on a risk-adjusted basis.
- **Duration Decision** - The firm claims that duration positioning is generally a result of sector selection and is managed within a +/-20% range relative to the benchmark. The portfolio's duration may be short or long versus the benchmark throughout a typical credit cycle. Additionally, the firm claims that yield curve positioning, such as a barbell or bullet strategy, is generally a result of sector selection.
- **Security Selection** - The Bond Strategy Group identifies securities within favorably valued sectors. The process is relatively defensive and not expected to add significant value. The group consists of the CIO, portfolio managers, analysts, and trader. This bottom-up component selects securities within the 75+ ranked sub-sectors.

Other Key Items

Decision Making

- The portfolio managers, together with Lloyd McAdams, are the ultimate decision-makers for the strategy.
- Strategic decisions are generally a by-product of the collective inputs of the Bond Strategy Group.

Sell Process

- Situations triggering a sale would include the following:
  - PIA will sell an issue or pare back a maturity or duration bucket if a perceived inefficiency has already been exploited and the firm wants to lock in incremental return.
  - The firm's outlook has changed with respect to the outcome or duration of an identified yield curve position.
  - Unexpected deterioration of issuer credit quality in one of the firm's defensively oriented corporate holdings.
  - PIA sells a security to improve the overall composition of the portfolio, when the return potential no longer justifies the risk, or possibly following a downgrade below investment guideline limits. Each downgrade is treated on a case-by-case basis based on the client guidelines and the firm's investment outlook.

Track Record Reliability

- CG IAR views the track record reliability as high for this strategy.
- Please note that PIA reports two separate composites (to performance databases), recognizing differences between its institutional and retail SMA portfolios (i.e., composite differences between PIA's larger and smaller SMAs).
- While composite differences are acknowledged, the duration and curve positioning across these accounts is expected to be the same.
- Additionally, while commingled funds are viewed as an improvement to the investment process, they leave the historical composite somewhat less representative.

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Lloyd McAdams	Chief Investment Officer	Generalist	●	University of Tennessee	1973	1986	1994
Evangelos Karagiannis	Co-Head of the Bond Strategy Group	Generalist	●	Ph.D. in Physics, UCLA	1992	1992	1994
Daniel Meyer	Co-Head of the Bond Strategy Group	Generalist	●		1998	1999	1999
Timothy Tarpening	Senior Portfolio Strategist	Generalist			1987	1993	1996

Source: PIA, CG IAR

Business Structure Overview

History/Ownership

- Pacific Income Advisers (PIA), headquartered in Santa Monica, CA, was founded in 1986 as an independent employee-owned investment management firm and began managing fixed income portfolios in January 1987. The firm provides investment management services for public funds, Taft-Hartley plans, corporations, insurance companies, endowments, foundations and private clients. PIA is primarily a fixed income shop, but it does and has offered small- and all-cap equity strategies.
- PIA founders and principal shareholders are Lloyd McAdams, Chairman and CIO, and Heather Baines, who holds the title President and CEO. Mrs. Baines is largely a passive owner and not involved with the firm's day-to-day business management.
- PIA has a related company in Anworth Mortgage Asset Corporation (ANH), a mortgage REIT that invests primarily in agency MBS on a leveraged basis. Key staff, managers, and owners of PIA have been managing ANH since its founding in 1997.

Business Plan

- PIA focuses its business development in fixed income products equally on the institutional and broker-consultants distribution channels. The firm's business objective is to increase the growth of assets under management at a rate that will not create unnecessary stress on organizational structure or plan sponsor relationships.

Legal/Compliance

- The most recent SEC examination was conducted in Dec. 2013. According to the firm, PIA received a clean opinion from this audit. Prior to 2013, the SEC performed an audit in November 2004, which caused the firm to update disclosures on Form ADV with minor modifications. Since then, they have performed annual mock audits as part of their regulatory compliance.

Other Key Factors

Incentives/Alignment of Interests

- According to the firm, personal financial success is largely correlated to the overall success of the firm; however, it is also tied to accountability for performance results.
- Total compensation includes a base salary, employee benefits, and a retirement plan with matching contributions. In addition, investment professionals, marketing, and client service personnel receive additional year-end compensation based on their individual contribution to the general firm profitability. The year-end compensation is generally a significant percentage of total compensation. PIA has also instituted an employee stock purchase plan through which employees may become eligible to acquire equity in PIA after achieving stated performance goals. Shares of PIA purchased by employees are vested immediately.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Lloyd McAdams	58.5%
Heather U. Baines	39.0%
Timothy Tarpening	2.4%
3 Other Employees	Less than 1%
Publicly Traded	**Ticker Symbol**
No	N/A

Source: PIA, CG IAR

Assets Under Management ($ Millions)

Year	Firm	Strategy
06/2014	11,726*	962
2013	12,244*	1,014
2012	3,864	1,214
2011	3,884	1,359
2010	4,387	1,366
2009	4,467	1,247

Source: PIA, CG IAR

**** The increase in assets since 2012 reflects the inclusion of ANH (on a levered basis).***

DEFINITIONS

Barclays Intermediate Govt/Credit Index - This index is the U.S. Gov/Credit component of the U.S. Aggregate index. The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. Securities are in the intermediate range of the Barclays Govt/Credit Index with maturities less than 10 years.

Barclays Mortgage Backed Securities Index - All fixed securities issued and backed by mortgage pools of Ginnie Mae (GNMA), Fannie Mae (FNMA), Freddie Mac (FHLMC), and half coupon securities. The index excludes buydowns, graduated equity mortgages (GEM), project loans, Non-agency (whole loans), jumbos, collateralized mortgage obligations (CMOs), graduated payment mortgages (GPMs), adjustable rate mortgages (ARMs), manufactured home mortgages, prepayment penalty collateral. Formed by grouping the universes of over 1 million individual fixed-rate MBS pools in to approximately 5,500 generic aggregates. Pool aggregates must be U.S. dollar denominated, have at least $250 million current outstanding and average weighted life of at least 1 year.

Barclays Credit Index - Composed of all publicly issued, fixed-rate, non-convertible, investment-grade, domestic corporate debt (collateralized mortgage obligations are not included). Total return comprises price appreciation/depreciation and income as a percentage of the original investment. This index is rebalanced monthly by market capitalization.

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

IMPORTANT DISCLOSURES

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Focus List, Approved List and Tactical Opportunities List; Watch Policy

CG IAR uses two methods to evaluate investment products in applicable advisory programs: Opinion Research (and investment products meeting this research standard are described as being on the Focus List) and Access Research (and investment products meeting this research standard are described as being on the Approved List). In general, Opinion Research entails a more thorough evaluation of an investment product than Access Research. Sometimes an investment product may be evaluated using the Opinion Research process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. CG IAR may also determine that an investment product no longer meets the criteria under either research process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

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Consider Your Own Investment Needs
This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Performance and Other Portfolio Information
General
Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

Benchmark index
Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

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

Other data
Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings
Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data
Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

Asset Class and Other Risks
Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

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

IPO securities: Investment in initial public offerings (IPO) exposes the portfolio to additional risks associated with companies that have little operating history as public companies, as well as to the risks inherent in those sectors of the market where these new issuers operate.

Value and ***growth investing*** also carry risks. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. 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.

International securities may carry additional risks, including foreign economic, political, monetary and/or 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***.

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

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer. Similar to bonds, ***loans*** are subject to interest rate risk and credit risk. Liquidity risk may be greater for a loan since there is no organized exchange on which loans are traded and reliable market quotations may not be readily available.

Ultra-short bond funds generally invest in fixed income securities with very short maturities, typically less than one year. They are not money market funds. While money market funds attempt to maintain a stable net asset value, an ultra-short bond fund's net asset value will fluctuate, which may result in the loss of the principal amount invested. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

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.

Real estate investments: property values can fall due to environmental, economic or other reasons, and changes in interest rates can negatively impact the performance of real estate companies.

Derivatives, in general, involve special risks and costs that may result in losses. The successful use of derivatives requires sophisticated management, in order to manage and analyze derivatives transactions. The prices of derivatives may move in unexpected ways, especially in abnormal market conditions. In addition, correlation between the particular derivative and an asset or liability of the manager may not be what the investment manager expected. Some derivatives are "leveraged" and therefore may magnify or otherwise increase investment losses. Other risks include the potential inability to terminate or sell derivative positions, as a result of counterparty failure to settle or other reasons.

Mortgage-backed securities ("MBS"), which include collateralized mortgage obligations ("CMOs"), also referred to as real estate mortgage investment conduits ("REMICs"), may not be suitable for all investors. There is the possibility of early return of principal due to mortgage prepayments, which can reduce expected yield and result in reinvestment risk. Conversely, return of principal may be slower than initial prepayment speed assumptions, extending the average life of the security up to its listed maturity date (also referred to as extension risk). Additionally, the underlying collateral supporting MBS may default on principal and interest payments. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements.

Commodities: The commodities markets may fluctuate widely based on a variety of factors including, but not limited to, changes in supply and demand relationships; governmental programs and policies; national and international political and economic events, war and terrorist events; changes in interest and exchange rates; trading activities in commodities and related contracts; pestilence, technological change and weather; and the price volatility of a commodity.

Alternative/hedged strategies may use 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/hedged strategies are not appropriate for all investors. A short sales strategy includes the risk of loss due to an increase in the market value of borrowed securities. Such a strategy may be combined with purchasing long positions in an attempt to improve portfolio performance. A short sales strategy may result in greater losses or lower positive returns than if the portfolio held only long positions, and the portfolio's loss on a short sale is potentially unlimited. The use of leverage can magnify the impact of adverse issuer, political, regulatory, market, or economic developments on a company. A decrease in the credit quality of a highly leveraged company can lead to a significant decrease in the value of the company's securities. In a liquidation or bankruptcy, a company's creditors take precedence over the company's stockholders.

MLPs involve risks that differ from an investment in common stock. MLPs are controlled by their general partners, which generally have conflicts of interest and limited fiduciary duties to the MLP, which may permit the general partner to favor its own interests over the MLPs. The potential return of MLPs depends largely on the MLPs being treated as partnerships for federal income tax purposes. As a partnership, an MLP has no federal income tax liability at the entity level. Therefore, treatment of one or more MLPs as a corporation for federal income tax purposes could affect the portfolio's ability to meet its investment objective and would reduce the amount of cash available to pay or distribute to you. Legislative, judicial, or administrative changes and differing interpretations, possibly on a retroactive basis, could negatively impact the value of an investment in MLPs and therefore the value of your investment.

The current yield of ***preferred securities*** is calculated by multiplying the coupon by par value divided by the market price. 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. The initial rate on a floating rate or index-linked preferred 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/linked index. However, there can be no assurance that these increases will occur.

Convertible securities are convertible to equity at the option of the holder. The market value of the securities, and the underlying common stock into which they are convertible, will fluctuate. In particular, securities whose value depends on the performance of an underlying security entail potentially higher volatility and risk of loss compared to traditional bond investments. You should be aware that the market value of convertible bonds may not correspond directly to increases or decreases in the underlying stock.

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Center Coast MLP SMA

APPROVED LIST REPORT

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STRATEGY DETAILS

INVESTMENT STYLE:	*Commodities-MLP*
BENCHMARK:	*Alerian MLP Index*
GIMA STATUS:	*Approved List*
PRODUCT TYPE:	*Separately Managed Account*
TICKER SYMBOL	*N/A*
SUB-ADVISOR	*N/A*

http://www.centercoastcap.com

STRATEGY DESCRIPTION

CCCA applies an investment philosophy from the perspective of an owner, operator, and potential acquirer of MLP assets and results in a concentrated portfolio with a bias toward higher-quality MLPs. The strategy seeks MLPs that exhibit prospects for distribution growth and high levels of sustainable current distribution, which generally results in a current distribution rate similar to the fund's benchmark.

Summary of Opinion:

- **NOTE: Clients should be aware of the potential tax treatment of investing in a portfolio of MLP securities, including receiving multiple K-1s.**
- Center Coast Capital Advisors ("CCCA") is a boutique investment firm that focuses on Master Limited Partnerships ("MLPs") since its founding in 2007. The founders of this organization, Dan Tutcher, Robert Chisholm, Steven Sansom, and Darrell Horn have considerable experience managing MLP investments and possess extensive energy sector operational expertise.
- CCCA has experienced positive business momentum since its inception. The firm raised over $4.5 billion in assets, and has made the necessary business investments from an operational and infrastructure standpoint to accommodate continued asset and client growth. Additionally, CCCA has added investment personnel to expand the team's research capabilities as the listed MLP universe grows.
- CCCA's strategy focuses on companies with low commodity price sensitivity, high barriers to entry, and low to moderate demand elasticity. The strategy is generally biased toward the owners/operators of natural gas, natural gas liquids (NGLs), crude oil, and refined products pipelines and storage facilities, and will generally underweight or exclude MLPs primarily focused on serving the propane, coal, and exploration and production segments.
- The strategy's investment process generally leads the investment team to "higher quality" MLPs in terms of distribution coverage and financial strength. Further, the team seeks MLPs that exhibit a high level of sustainable current distributions, favorable valuations and strong prospects for distribution growth. As a result of the process, the strategy's portfolio generally exhibits a current distribution rate that is in-line, to slightly below the benchmark.
- The strategy has historically exhibited lower volatility and lower downside capture relative to the benchmark and MLP-focused separately management account peers. The strategy's portfolio consists of 25 to 35 MLPs and MLP affiliates. While the strategy's portfolio is considered highly concentrated relative to traditional equity portfolios, it is generally in-line relative to peers. Additionally, the strategy caps the maximum position size at 10%, which helps mitigate some concentration risk relative to the benchmark and peers.

Positive Attributes

- Investment professionals at CCCA have a long history of focusing on MLPs and related businesses linked to energy infrastructure assets. GIMA considers the experiences of founders, Dan Tutcher, who was formerly a President at Enbridge Energy and founder of MidCoast Energy Resources, and Robert Chisholm, who was previously a project analyst at Enbridge Energy Partners, to provide a unique perspective as an owner/operator of midstream energy infrastructure assets.
- GIMA believes the organization has experienced positive business momentum in terms of asset growth, the hiring of several key employees, and the improvement of technology infrastructure over the past couple of years.

Points to Consider

- Clients should be aware of the potential tax treatment common with MLP securities (K-1 filings).
- The MLP universe is generally comprised primarily of midstream energy infrastructure including transportation and storage facilities, interstate pipelines, gathering and processing assets that generally service crude oil, natural gas, natural gas liquids and refined petroleum products markets.
- MLPs can generally incur various levels of commodity price sensitivity, depending on the type midstream energy infrastructure noted above. This strategy is generally biased toward lower commodity sensitive businesses, including the owners/operators of natural gas, natural gas liquids (NGLs), crude oil, and refined products pipelines and storage facilities, and will generally underweight or exclude MLPs with assets primarily focused on serving the propane, coal, and exploration and production segments.
- The strategy gravitates towards less cyclical businesses such as those focused on the aforementioned midstream energy segments which tend to exhibit lower demand elasticity. The strategy also tends to underweight or avoid MLPs that can have generally more variable cash flow distributions.
- While the strategy will primarily invest in energy MLPs, the portfolio can hold regular C-corporation stocks of midstream energy companies.
- This strategy's portfolio consists of 25 to 35 securities, which is highly concentrated relative to traditional equity portfolios; however, this is generally in-line relative to peers (MLP-focused SMAs). Additionally, the strategy caps the maximum position size at 10%, which helps mitigate some concentration risk.
- MLP securities are generally less liquid compared with some other publicly traded equity securities.

Areas of Concern

- While the size of the investment team is adequate given the size of the investment universe, the departure of either Dan Tutcher or Robert Chrisholm would constitute a material concern from GIMA's perspective.
- CCCA's total assets under management (AUM) invested in MLPs has grown significantly from $436mm, in 2011, to approximately $4.6bn, as of 12/31/2014. Additionally, CCCA generally manages a single, fairly concentrated model portfolio across various products. MLPs are generally lower in market capitalization and are less liquid compared with some other publically traded equity securities. Further significant increases in firm AUM in MLPs, and/or a prolonged MLP market downturn may adversely impact the strategy's performance.
- The firm manages multiple strategies that utilize a very similar investment process in a concentrated segment of the market. If the asset class or process falls out of favor for a prolonged period, business deterioration could be significant.

News Summary

- 1Q 2015 - Research associate, Chance Pipitone, left CCCA.
- 2014 – Boran Buturovic and Joe Herman were hired as a research associates. Jeff Jorgensen was hired as the Director of Research.
- 2012 – Billy Bauch replaced Richard Finch as Chief Compliance Officer and Chief Financial Officer of CCCA. Chance Pipitone joined CCCA as a research associate.

Additional Comments

- MLP securities have typically displayed more defensive characteristics relative to the broad market (e.g. lower beta and lower downside capture) but with greater volatility. In addition, the asset class has not generally been highly correlated to equities and commodities. However, there is not a significant amount of performance history to analyze for this specific asset class. The volatility profile and perceived diversification benefits may vary over time as market conditions change.

Portfolio Traits

Equity	
Range of Holdings	Typically 25-35
Maximum Position Size	10%
Econ Sector Constraints	100% allocation to energy MLPs and C-corp. affiliates of energy MLPs.
Country Constraints	N/A
Emerging Mkts Constraints	N/A
Currency Hedging	N/A
Tracking Error Target	No target
Typical Annual Turnover	10%-15%; however, turnover may vary based on market volatility.
Invests in ADRs	No
Invests in ETFs	No
Invests in Derivatives	No
Invests in IPOs	Yes
Liquidity Constraints	Generally, 85% of the portfolio can be liquidated within a week, assuming 20% of daily trade volume.
Maximum Cash	Generally 5% maximum, but CCCA intends to be fully invested.
Typical Cash Position	typically <3%
Est. Product Capacity	$7 - $8 billion, but may vary based on changes in the float-adjusted market cap.

Source: CCCA, GIMA

Investment Capabilities Overview

Portfolio Management Team

- CCCA's investment team is comprised of seven investment professionals. Four members encompass the Investment Committee, including Dan Tutcher and Robert Chisholm, who are the primary decision makers. Mr. Tutcher was the CEO of MidCoast Energy Resources, Inc., which was acquired by Enbridge in 2001. He was the President and Director of Enbridge Energy Partners, LP from 2001-2006. He has 40 years of energy industry experience. Robert Chisholm, who co-founded CCCA, previously held a position in Morgan Keegan's Energy Investment Banking Division and was a Senior Project Analyst at Enbridge Energy Partners, LP.
- Steven Sansom and Darrell Horn are also considered Investment Committee members. Mr. Sansom focuses on top down analysis while Mr. Horn provides risk management oversight and implementation of hedging techniques for the firm's hedge fund. Both individuals have direct experience investing in MLPs. Messrs. Horn and Sansom were employed at Goldman Sachs before founding Green Square Capital, a SEC Registered Investment Advisor.
- Jeff Jorgensen joined CCCA in March 2014 as the Director of Research. Previously, Mr. Jorgensen held investment banking positions at UBS, with a focus on energy and MLPs, and at Morgan Stanley within their Global Energy Group.
- Lastly, the team is supported by research associates Joe Herman and Boran Buturovice, both of whom joined the firm in 2014. Mr. Herman previously served as an investment banking associate at Tudor, Pickering, Holt & Co., focusing on MLPs, while Mr. Buturovice joined from an investment banking position at UBS.

Investment Philosophy & Process

- The CCCA MLP SMA utilizes the investment team's experience from an owner/operator perspective in investing in energy-related and infrastructure assets. The firm primarily focuses on energy MLP securities but also includes affiliates of energy MLPs that are structured as C-corporations as part of its investable universe. The investable universe can be subdivided further into the following sub-sectors: interstate pipelines, gathering & processing, storage, propane, exploration & production, shipping, coal, and other.
- CCCA's investment team targets "high quality" MLPs, which they believe possess strong financial characteristics relative to peers. The investment team attempts to find attractively valued MLPs based on proprietary relative valuation analysis. Emphasis is placed on those firms that have the ability to consistently grow distribution cash flows over time.
- The following criteria are independently assessed for each potential investment candidate:
    - Financial Analysis/Valuation: EBITDA margins, cost and access to capital distributable cash flow, distributable cash flow growth and coverage, and leverage.
    - Asset Quality: contract structures and duration, commodity price exposure, diversification and geographic locations, operating risk, counterparty risk, basin risk, strategic position, and competitive landscape.
    - Management Quality: operational experience, financial experience, business plan, general partner strength, and asset dropdown availability.
    - Trading Analysis: liquidity, technical factors, and assessment of trading activity of major shareholders.
- CCCA utilizes a proprietary multi-factor model that assesses each of the sub-industries (natural gas / NGL pipelines, refined products pipelines, GPs, propane, coal, shipping, crude oil pipelines, E&P, specialty, etc.) based on commodity price exposure, weather sensitivity, demand elasticity, and barriers to entry.
- The investment team appears to have a thorough understanding of operating assets, contract structures, and variability of cash flows due to industry experience.
- GIMA believes that CCCA's ability to assess asset quality is one of its key strengths, as well as its ability to assess management teams. The firm avoided MLPs that that filed for bankruptcy or had distribution cuts in 2008.
- CCCA uses a weighting system to determine position sizes in the portfolio. The rankings are relative to CCCA's universe of MLPs and portfolio weights are agnostic of the benchmark, the Alerian MLP Index. Top ranked MLPs are considered overweights and are weighted 1.5 to 2.5 times the equal weight; the middle ranked MLPs are eligible for an equal weight; and the bottom ranked are considered underweights and are weighted 0.25 to 0.75 times the equal weight.
- CCCA monitors underlying commodity prices and strongly considers a company's contract structure and commodity hedging strategy as an important consideration. The firm prefers MLPs that are less sensitive to commodity price fluctuations.

Other Key Items

Decision Making

- While Dan Tutcher, Rober Chisholm, Steven Sansom, and Darrell Horn are members of the Investment Committee, Mr. Tutcher and Mr. Chisholm have ultimate decision-making authority for all of the firm's strategies.

Sell Process

- CCCA may sell holdings if there is fundamental deterioration compared to a peer group of stocks, price target is achieved, stop/loss reached, and micro/macro developments occur.

Track Record Reliability

- GIMA believes that the strategy's track record is representative of the current investment team, philosophy and process since the inception of the composite in 2007.

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Dan Tutcher	Principal, PM	Generalist			1973	2007	2009
Robert Chisholm	Principal, PM	Generalist		University of Texas	1999	2007	2009
Steven Sansom	Principal	Generalist / macro			1990	2007	2009
Darrell Horn	Principal	Risk management		Vanderbilt	1989	2007	2009
Jeff Jorgensen	Director of Research	Generalist		University of Texas	2008	2014	2014

Source: CCCA, GIMA

Business Structure Overview

History/Ownership

- CCCA is a registered investment adviser based in Houston, TX, which was founded in 2007. The firm focuses on energy-related MLPs with an investment process focused on due diligence from an owner-operator perspective.
- Dan Tutcher retired from Enbridge Energy Partners, LP in 2006. He founded the firm with Steve Sansom, Darrell Horn and Rob Chisholm (MLP M&A Specialist). Mr. Tutcher elected to create the firm based on growing institutional and retail investor demand for MLPs, in conjunction with his interest in managing his personal assets within an asset class that he has closely followed for over two decades.
- Steven Sansom and Darrell Horn indirectly own approx. 30% of CCCA through The Green Square Group LLC, which is a boutique wealth management advisory firm they founded in 2001.
- CCCA has experienced significant asset growth since its inception.

Business Plan

- CCCA's goal is to raise assets by growing its existing line-up of MLP strategies, which consist of separately managed accounts, a hedged fund, an open-ended mutual fund, and a newly launched closed-end fund.
- CCCA indicated that there were no intentions of offering additional products within other asset classes aside from the MLPs.
- As CCCA's number of accounts and AUM continue to grow, the firm has made the necessary business investments from an operational and infrastructure standpoint. As the firm has grown, CCCA added new software for account management, which includes trading, composite performance reporting and compliance.

Legal/Compliance

- The last SEC audit was in 2014. According to CCCA, the firm received several comments which have been addressed.
- Billy Bauch is the Chief Compliance Officer and Chief Financial Officer for CCCA. Mr. Bauch joined CCCA in 2012 following holding a senior partner position at the consulting firm Korn Ferry. In addition, the firm utilizes a third party compliance consultant to ensure compliance with the Investment Company Act of 1940.
- CCCA provided its Disaster Recovery Policy and claims that all employees have the ability to work remotely.
- Given Dan Tutcher's industry affiliations, CCCA has a section within its Code of Ethics document that provides details in terms of how investment decisions are implemented with regard to certain companies.

Other Key Factors

Incentives/Alignment of Interests

- The firm compensates investment professionals through a combination of salary and bonus based on performance and firm profitability. Employees are eligible to obtain equity in the firm based on longer-term contributions.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Dan Tutcher	~35%
Robert Chisholm	~28%
The Green Square Group	~30%
Other CCCA employees	~7%
Publicly Traded	**Ticker Symbol**
No	

Assets Under Management ($ Millions)

Year	Firm	Separate Account	Mutual Fund	Closed-End Fund
2014	$4,616	$598	$3,161	$422
2013	$3,240	$286	$2,243	$392
2012	$1,232	$77.1	$1,074	-
2011	$435.6	$29.2	$316.4	-
2010	$104.5	$8.0	$0.2	-
2009	$94.3	$4.8	-	-
2008	$47.7	-	-	-

Source: CCCA, GIMA

DEFINITIONS

Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index, which is calculated using a float-adjusted, capitalization-weighted methodology, is disseminated real-time on a price-return basis and on a total-return basis.

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

IMPORTANT DISCLOSURES

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This report is only to be used in Morgan Stanley Wealth Management investment advisory programs and not in connection with brokerage accounts.

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GIMA evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Smith Barney LLC's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any GIMA status changes even though it may give notice to clients in other programs.

Focus List, Approved List and Tactical Opportunities List; Watch Policy
GIMA uses two methods to evaluate investment products in applicable advisory programs: Focus (and investment products meeting this standard are described as being on the Focus List) and Approved (and investment products meeting this standard are described as being on the Approved List). In general, Focus entails a more thorough evaluation of an investment product than Approved. Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

GIMA has a 'Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved." The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager or fund to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" next to the "Status" on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a publication entitled "Manager Selection Process."

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Morgan Stanley Wealth Management has no obligation to update you when any information or opinion in this report changes.

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Consider Your Own Investment Needs

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Performance and Other Portfolio Information

General

Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

Benchmark index

Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

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

Other data

Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings

Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data

Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

Asset Class and Other Risks

Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

MLPs involve risks that differ from an investment in common stock. MLPs are controlled by their general partners, which generally have conflicts of interest and limited fiduciary duties to the MLP, which may permit the general partner to favor its own interests over the MLPs. The potential return of MLPs depends largely on the MLPs being treated as partnerships for federal income tax purposes. As a partnership, an MLP has no federal income tax liability at the entity level. Therefore, treatment of one or more MLPs as a corporation for federal income tax purposes could affect the portfolio's ability to meet its investment objective and would reduce the amount of cash available to pay or distribute to you. Legislative, judicial, or administrative changes and differing interpretations, possibly on a retroactive basis, could negatively impact the value of an investment in MLPs and therefore the value of your investment.

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

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

Commodities: The commodities markets may fluctuate widely based on a variety of factors including, but not limited to, changes in supply and demand relationships; governmental programs and policies; national and international political and economic events, war and terrorist events; changes in interest and exchange rates; trading activities in commodities and related contracts; pestilence, technological change and weather; and the price volatility of a commodity.

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