Securities Investor Protection Corporation (SIPC) Coverage of Client Securities and Cash

Morgan Stanley Smith Barney LLC is a member of SIPC, a federally mandated US nonprofit corporation that protects investors from financial loss up to the applicable limits if a member firm becomes insolvent.

See the addendum on the back cover for details.

The Firm provides, at no cost to clients, private insurance in excess of SIPC coverage, which provides an additional $1 billion coverage on an aggregate basis to cover shortfalls if basic SIPC coverage is insufficient as a result of breach of securities rules or physical loss or damage to customer assets. This coverage is subject to a Firmwide cap of $1 billion with no per-client limit for securities and a $1.9 million per-client limit for the cash portion of any remaining shortfall.

Stringent Regulatory Compliance and Strong Capital Positions

As a financial holding company under federal law, Morgan Stanley is subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for Morgan Stanley and evaluates Morgan Stanley's compliance with such capital requirements.

As of December 31, 2012, Morgan Stanley was in compliance with Basel I capital requirements, with Tier 1 capital of $54.4 billion and ratios of Tier 1 capital to Risk Weighted Assets (RWA) of 17.7% and total capital to RWAs of 18.5% (6% and 10% being well capitalized for regulatory purposes, respectively). Also, the ratio of Tier 1 common capital to RWAs was 14.6% (5% being the minimum under the Federal Reserve's new capital plan framework). In addition, financial holding companies are also subject to a Tier 1 leverage ratio as defined by the Federal Reserve. As of December 31, 2012, Morgan Stanley was in compliance with this leverage restriction, with a Tier 1 leverage ratio of 7.1% (5% being well capitalized for regulatory purposes). The weighted average maturity of Morgan Stanley's secured funding is in excess of 120 days. Morgan Stanley does not rely on commercial paper or money market funds for its financing. Morgan Stanley is assigned credit ratings by the major ratings agencies that are in range with the world's largest banks.

In addition to Morgan Stanley's capital requirements, Morgan Stanley Smith Barney LLC is subject to regulatory net capital requirements for broker-dealers designed to ensure that the Firm has on hand at all times sufficient cash and other readily marketable assets to meet all of its financial obligations to its customers. The Firm has always met this strict regulatory capital requirement with substantial excess capital to spare. Our businesses, processes and procedures are audited on a regular basis by regulators, including the SEC (periodically, including in 2011); FINRA (annually); CFTC (periodically, including in 2012); and the National Futures Association (annually); as well as our external auditor, Deloitte & Touche LLP, and our Internal Audit Division. As a financial holding company, Morgan Stanley is subject to oversight by, among others, the Federal Reserve, as noted above.

Morgan Stanley has been in business for more than 75 years and is committed to serving clients across all market and economic cycles.
A commitment to safeguarding and protecting client assets has been a constant throughout this history, and we will continue to work hard every day to earn and deserve our clients' trust.

ADDENDUM

SIPC and FDIC Coverage. Securities Investor Protection Corporation (SIPC) Coverage

Morgan Stanley Smith Barney LLC is a member of SIPC, a federal mandated US nonprofit corporation that protects customer assets from financial loss in the event a broker-dealer becomes insolvent.

SIPC automatically covers securities that we hold in custody (stocks, bonds, notes) up to $500,000 per client capacity (e.g., individual, joint) of which $250,000 may be cash. This means in the unlikely event of a liquidation, a court-appointed trustee of a SIPC member firm and SIPC representative will examine the records of the member firm to verify that all of the securities are accounted for. If sufficient funds are not available in the firm's customer accounts to satisfy claims within the above limits, the reserve funds of SIPC are used to supplement the distribution, up to the ceiling of $500,000 per customer, including up to $250,000 for cash claims.

Money market funds receive SIPC coverage as securities, not as cash. Funds in the Bank Deposit Program are covered by FDIC insurance, not SIPC.

Additional information about SIPC is available at www.sipc.org.

The Firm also has obtained private insurance in excess of SIPC coverage, which provides an additional $1 billion coverage on an aggregate basis to cover shortfalls if basic SIPC coverage is insufficient as a result of breach of securities rules or physical loss or damage to customer assets. This coverage is subject to a Firmwide cap of $1 billion with no per-client limit for securities and a $1.9 million per-client limit for the cash portion of any remaining shortfall.

Federal Deposit Insurance Company (FDIC) Coverage

The FDIC is an independent agency of the US government, created by Congress to maintain stability and public confidence in the nation's financial system by, among other things, insuring deposits.

FDIC deposit insurance protects clients against the failure of each depository institution that participates in the Firm's Bank Deposit Program.

Deposits in the Bank Deposit Program are FDIC insured up to a total of $250,000 per bank for each insurable capacity in which funds are held (individual, joint, etc.).

Additional information about the FDIC is available at www.fdic.gov.

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