

Bank Deposit Program
Disclosure Statement

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Bank Deposit Program Disclosure Statement

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Introduction

Under the Bank Deposit Program (the “Program”), free credit balances¹ in your

- Active Assets Account (“AAA”),
- Basic Securities Account (“BSA”),
- Individual Retirement Account² (“IRA”),
- Education Savings Account, commonly referred to as a Coverdell Education Savings Account (“CESA”),
- Business Active Assets Account (“Business AAA”),
- Business Basic Securities Account (“Business BSA”), and
- Versatile Investment Program Plan Account (“VIP”), Retirement Plan Manager Account (“RPM”) or Employee Benefit Trust Account (“EBT”), account types used at Morgan Stanley Smith Barney to hold assets in connection with “employee benefit plans”³ (collectively, for purposes of this Disclosure Statement, referred to as “ERISA Accounts”),

(each, an “Account;” collectively, the “Accounts”) will be automatically deposited into deposit accounts (“Deposit Accounts”) established for you by Morgan Stanley Smith Barney LLC (“Morgan Stanley Smith Barney”), through and in the name of Morgan Stanley & Co. Incorporated (“Morgan Stanley”)* at Morgan Stanley Bank, N.A., a national bank (“Morgan Stanley Bank”), and Morgan Stanley Trust, a federal savings bank (“Morgan Stanley Trust”), each an affiliate of Morgan Stanley Smith Barney (each, a “Sweep Bank”).⁴

Each Account is either a brokerage account or managed account. “Managed Accounts” are accounts which are enrolled in one of the following programs: Morgan Stanley Advisory, Personal Portfolio, Fund Solution, Custom Portfolio, Access or Vision. All other accounts are “Brokerage Accounts.” Managed Accounts and Brokerage Accounts may be business accounts. “Business Accounts” include Business AAAs and Business BSAs, regardless of the account owner, as well as AAAs and BSAs owned by sole proprietorships and partnerships.

The Deposit Accounts at each Sweep Bank are established in the name of Morgan Stanley, as agent and custodian for its clients, and consist of a Negotiable Order of Withdrawal (“NOW”) account and a money market deposit account (“MMDA”), except for Business Accounts, for which the Deposit Accounts will consist solely of an MMDA.

For all Accounts, your funds in the Deposit Accounts at each Sweep Bank are eligible for deposit insurance by the Federal Deposit Insurance Corporation (“FDIC”) up to a specified amount (principal and accrued interest) per depositor in each insurable capacity (e.g., individual or joint). The FDIC insurance limit applicable to each insurable capacity is referred to in this document as the “Maximum Applicable Insurance Limit.”

The deposit insurance limit for all insurable capacities has been increased to \$250,000 through December 31, 2013. Therefore, the Maximum Applicable Insurance Limit is \$250,000 through December 31, 2013, and, unless extended, will revert to \$100,000 on January 1, 2014, for all insurable capacities except for IRAs, Section 457 Plans, self-directed Keogh plans and certain self-directed defined contribution plans.

Any deposits (including certificates of deposit (“CDs”))⁵ that you maintain in the same capacity directly with a Sweep Bank, or through an intermediary (such as Morgan Stanley Smith Barney or another broker), will be aggregated with deposits in your Deposit Accounts at that Sweep Bank for purposes of the Maximum Applicable Insurance Limit. You are responsible for monitoring the total amount of deposits that you have with each Sweep Bank in order to determine the extent of FDIC deposit insurance coverage available to you. We are not responsible for any insured or uninsured portion of a Deposit Account at a Sweep Bank. You should review carefully the section of this document titled “FDIC Insurance,” which describes the amount of coverage available to you.

As discussed below under “Deposit Procedures,” your available cash will be deposited into the Deposit Accounts at each Sweep Bank up to an amount set by Morgan Stanley Smith Barney and the Sweep Banks from time to time that is within the Maximum Applicable Insurance Limit (the “Deposit Limit”). The Deposit Limit is currently \$245,000 for Accounts held individually, IRAs, CESAs and ERISA Accounts, and \$490,000 for Accounts held jointly by two or more persons or entities. All trust Accounts are treated as individual accounts for purposes of the Deposit Limit. Deposit Limits are set slightly below the FDIC insurance thresholds to allow for accrued interest on the Deposit Accounts. If your funds exceed the Deposit Limit at each Sweep Bank, such excess funds will be deposited, without limit, into the Deposit Accounts at the first Sweep Bank into which funds were initially swept, which means that you are likely to have funds at that Sweep Bank that are not FDIC-insured.

Eligibility

The Program may not be available for all account types or for accounts held by certain non-U.S. residents, depending on their jurisdiction. Please ask your Financial Advisor for more details regarding Program eligibility.

Deposit Procedures

In general, for all accounts other than Business Accounts, we will deposit your funds into your NOW account at a Sweep Bank. Funds in excess of a minimum amount determined periodically by each Sweep Bank as necessary to satisfy debits in your Account will be transferred from your NOW account to your related MMDA at the Sweep Bank. Transfers from your MMDA to your related NOW account and withdrawals from your NOW account are discussed below under "Withdrawal Procedures (Except for Business Accounts)."

For Business Accounts, funds will be deposited into your MMDA at each Sweep Bank. Withdrawals from your MMDA are discussed below under "Withdrawal Procedures—Business Accounts." Morgan Stanley, as your agent, will deposit your available cash into your Deposit Accounts as follows:

For BSAs that are Brokerage Accounts: First, deposits will be made at Morgan Stanley Trust up to the Deposit Limit, then any available cash in excess of the Deposit Limit will be deposited into your Deposit Accounts at Morgan Stanley Bank up to the Deposit Limit. Once your deposits reach the Deposit Limit at both Sweep Banks, then available cash will be deposited into your Deposit Accounts at Morgan Stanley Trust, even if the amounts in the Deposit Accounts at Morgan Stanley Trust exceed the Applicable Insurance Limit.

For all other Accounts: First, deposits will be made at Morgan Stanley Bank up to the Deposit Limit, then any available cash in excess of the Deposit Limit will be deposited into your Deposit Accounts at Morgan Stanley Trust up to the Deposit Limit. Once your deposits reach the Deposit Limit at both Sweep Banks, available cash will be deposited into your Deposit Accounts at Morgan Stanley Bank, even if the amounts in the Deposit Accounts at Morgan Stanley Bank exceed the Applicable Insurance Limit.

Interest Rates Generally

The NOW accounts and the MMDAs will earn the same rate of interest. Interest rates on the NOW accounts and the MMDAs are variable and subject to change without notice. Morgan Stanley Smith Barney and the Sweep Banks reserve the right to change the interest rates without prior notice to you or the methodology used to determine the interest rates on Deposit Accounts at their sole

discretion. The Sweep Banks generally set the rates on a weekly basis, but may set the rate more or less frequently. Morgan Stanley Smith Barney generally recommends the interest rate and the Sweep Banks have the authority to modify the rate before approving and implementing it. The rate is generally based on a variety of factors including, but not limited to, current market conditions and competitive rates. Our ability to influence the rate on your Deposit Accounts presents a conflict of interest. Please refer to the "Conflicts of Interest" section below for more information.

Funds deposited into Deposit Accounts at a Sweep Bank will begin to accrue interest on the business day of receipt by the Sweep Bank up to but not including the day of withdrawal. We will generally deposit cash in your Account in the Deposit Accounts at a Sweep Bank on the first business day after the cash is received in your Account.

Interest will be compounded daily and credited monthly to your Deposit Accounts at a Sweep Bank. Interest will be credited on the second to last business day of the month. The Sweep Banks use the daily balance method to calculate interest on your Deposit Accounts. This method applies a daily periodic rate to the principal in the Deposit Accounts each day.

The interest rates paid with respect to the Deposit Accounts at the Sweep Banks may be higher or lower than the interest rates available on other deposit accounts offered by a Sweep Bank or on deposit accounts offered by other depository institutions. You should compare the terms, interest rates, required minimum amounts and other features of the Deposit Accounts with other deposit accounts and alternative cash investments. You may obtain information with respect to the current interest rates and interest rate tiers by contacting your Financial Advisor or accessing Morgan Stanley Smith Barney's public website at: www.morganstanleyindividual.com/accountoptions/activeassets/investmentfeatures/.

Morgan Stanley Smith Barney and the Sweep Banks reserve the right to change the interest rates and interest rate tiers, and further, on any day there may be no difference in the interest rates on different tiers.

As discussed below, there will be changes to the interest rate methodology for Brokerage Accounts and Managed Accounts taking effect on April 6, 2010.

Brokerage Accounts

For all Brokerage Accounts, the interest rates on Deposit Accounts will be tiered (“Tiered Rates”) based upon the value of Eligible Assets in your Morgan Stanley Smith Barney household. There are six interest rate tiers:

- \$10,000,000 or greater
- \$1,000,000 to \$9,999,999.99
- \$500,000 to \$999,999.99
- \$250,000 to \$499,999.99
- \$100,000 to \$249,999.99
- Less than \$99,999.99

Eligible Assets include the deposits in your Deposit Accounts at the Sweep Banks, equities, bonds, CDs, mutual funds, managed futures and certain other assets that are reflected on your Account statement. Liabilities, such as mortgages and margin loans, are excluded. In general, the greater the value of your Eligible Assets, the higher the interest rate on your Deposit Accounts.

We will determine the value of Eligible Assets each week (the “Valuation Date”) and our valuation will be final. If a change in the value of your Eligible Assets causes you to move from one interest rate tier to another interest rate tier, your Deposit Accounts will earn interest at the rate in your new tier beginning no later than the first business day following the Valuation Date.

The interest rate tier for your Deposit Accounts will be determined by aggregating Eligible Assets in all applicable accounts in your Morgan Stanley Smith Barney household.** Certain accounts can be included in a household if the account owner lives with the head of household and/or qualifies based on his/her familial relationship to the head of household. Eligible family relationships include spouse (or domestic partner), children, parents and grandparents of the head of household.

There are restrictions on what account types can and cannot be grouped together in a household. Some account types cannot be grouped with any other account types including, for example, employee benefit plan accounts and irrevocable trusts. Other account types cannot be in the same household including, for example, IRAs and Business Accounts. There are also account types where consent may be required to include an account in a

household including, for example, non-ERISA retirement accounts (i.e., retirement plans that cover only owner and/or spouse) and family/solely-owned entity accounts.

Effective April 6, 2010, the interest rate tier for your Deposit Accounts will be determined by aggregating Eligible Assets in all applicable accounts in your BDP Pricing Group rather than your broader household. A BDP Pricing Group is a group of accounts within a household that have the same address. Accounts utilizing the same social security number or tax identification number in a household may also be included in a BDP Pricing Group even if the account address is different from other accounts.

You should consult with your Financial Advisor to determine whether all eligible accounts have been included in your household and/or BDP Pricing Group. It is your responsibility to ensure that all eligible accounts are included in your household and/or BDP Pricing Group.

We reserve the right to modify our household eligibility requirements (for example, relating to type of accounts and assets) and method of calculating a BDP Pricing Group at any time, including the right to modify the definition of Eligible Assets without notice.

Managed Accounts

Managed Accounts do not receive Tiered Rates based on Eligible Assets. Instead, they receive an interest rate consistent with the iMoneyNet All—in Taxable Money Market Fund index. This index is an average representing a broad-based measure of the returns of a variety of taxable money market funds established by a nationally recognized independent third party.

Effective April 6, 2010, Managed Accounts will receive an interest rate based on the following criteria:

- \$10 million or greater in a BDP Pricing Group will receive the \$10 million and above Tiered Rate or the Crane Money Fund Average, whichever is greater.
- Less than \$10 million in a BDP Pricing Group will receive the \$1 million to \$9,999,999.99 Tiered Rate or the Crane Money Fund Average, whichever is greater.

The Crane Money Fund Average is an unaffiliated benchmark of money market returns that represents a broad-based measure of the returns of U.S. Treasury, U.S. government and agencies, retail, government institutional and institutional and other taxable money market funds.

Credited Interest Rebalancing

If, on the last day of any month, the interest credited to your Deposit Accounts at a Sweep Bank has caused your deposits to exceed the Deposit Limit, Morgan Stanley, as your agent, may withdraw the excess from that Sweep Bank and deposit it in the other Sweep Bank. For example, with respect to an AAA owned by an individual: if at the end of a month you maintain deposit balances of \$245,000 in your Deposit Accounts at Morgan Stanley Bank and \$15,000 in your Deposit Accounts at Morgan Stanley Trust, the amount of any interest credited to your Deposit Accounts at Morgan Stanley Bank for the month would be transferred by Morgan Stanley to your Deposit Accounts at Morgan Stanley Trust, where, in this example, your Deposit Limit has yet to be reached. When the Deposit Limit at Morgan Stanley Trust is reached, the amount of any interest credited to your Deposit Accounts at Morgan Stanley Trust for the month would be transferred by Morgan Stanley to your Deposit Accounts at Morgan Stanley Bank so that no more than \$245,000 is on deposit at Morgan Stanley Trust. In this example, Morgan Stanley would not, however, transfer to Morgan Stanley Trust the amount of any interest credited to your Deposit Accounts at Morgan Stanley Bank, since, for AAAs, no more than \$245,000 can be deposited at Morgan Stanley Trust. Please refer to the “Deposit Procedures” section above for more information.

Withdrawal Procedures (Except for Business Accounts)

All withdrawals necessary to satisfy debits in your Account will be made by Morgan Stanley, as your agent, from your NOW account at a Sweep Bank. A debit in your Account could result if, for example, you make a securities purchase or, if your Account has such services, you write a check, withdraw funds or make purchases using your MasterCard World or World Elite Card® or make payments pursuant to bill payment services.

If a withdrawal of funds from your Deposit Accounts is necessary to satisfy a debit, funds will be withdrawn on a “last in, first out” basis, which means that funds will be withdrawn from the Sweep Banks in the reverse order from which the funds were deposited. For example, if you are a client with an AAA and funds have been deposited at Morgan Stanley Bank after the Deposit Limit has been reached at Morgan Stanley Trust, the funds in excess of the Deposit Limit at Morgan Stanley Bank will be withdrawn, followed by funds in Morgan Stanley Trust, and, if necessary, the remaining withdrawal amount will be satisfied from funds at Morgan Stanley Bank. Or, if you are a client with a BSA, for example, and funds have been deposited at Morgan Stanley Trust after the Deposit Limit has been reached at Morgan Stanley Bank, the funds in excess of the Deposit Limit at Morgan Stanley Trust will be withdrawn,

followed by funds in Morgan Stanley Bank, and, if necessary, the remaining withdrawal amount will be satisfied from funds at Morgan Stanley Trust.

All withdrawals will be made from the NOW account at the appropriate Sweep Bank. If funds in the NOW account at the Sweep Bank are insufficient to satisfy the debit, funds in the MMDA at that Sweep Bank will be transferred by Morgan Stanley as your agent to the related NOW account to satisfy the debit. Additional funds in the MMDA at the Sweep Bank will also be transferred to the related NOW account at that Sweep Bank to maintain any minimum balance that the Sweep Bank may establish.

Federal banking regulations limit the transfers from an MMDA to a total of six during a monthly statement cycle. At any time during a month in which transfers from your MMDA at a Sweep Bank have reached the regulatory limit, all funds will be transferred from that MMDA to the related NOW account and no funds will be transferred from your NOW account to the related MMDA for the remainder of the month. At the beginning of the next month, funds on deposit in your NOW account will be transferred to the related MMDA at each Sweep Bank, minus any minimum amount to be maintained in your NOW account. These limits on MMDA transfers at each Sweep Bank will not limit the number of withdrawals of funds on deposit in your NOW account at a Sweep Bank, the interest rate you earn, or the amount of FDIC insurance coverage for which you are eligible.

As required by Federal banking regulations, the Sweep Banks reserve the right to require seven days prior notice before permitting a transfer of funds out of a NOW account or MMDA. While the Sweep Banks have indicated that they have no present intention of exercising their right to require such notice, the Sweep Banks may exercise this right at any time in their sole discretion.

Withdrawal Procedures—Business Accounts

Business Accounts will only have an MMDA account. All withdrawals necessary to satisfy debits in your Account will be made by Morgan Stanley, as your agent, from your MMDA account at a Sweep Bank. A debit in your Account could result if, for example, you make a securities purchase. If a withdrawal of funds from your Deposit Accounts is necessary to satisfy a debit, funds will be withdrawn on a “last in, first out” basis, which means that funds will be withdrawn from the Sweep Banks in the reverse order from which the funds were deposited. For example, if you are a client with a Business AAA and funds have been deposited at Morgan Stanley Bank after the Deposit

Limit has been reached at Morgan Stanley Trust, the funds in excess of the Deposit Limit at Morgan Stanley Bank will be withdrawn, followed by funds in Morgan Stanley Trust, and, if necessary, the remaining withdrawal amount will be satisfied from funds at Morgan Stanley Bank. If there are insufficient funds in the Deposit Accounts at the last Sweep Bank in which funds were deposited to satisfy the debit, Morgan Stanley will withdraw funds from the Deposit Accounts at the next Sweep Bank. Federal banking regulations limit the transfers from an MMDA to a total of six during a monthly statement cycle. Please refer to the “Transaction Limitations for Business Accounts” section below for more information.

As required by Federal banking regulations, the Sweep Banks reserve the right to require seven days prior notice before permitting a transfer of funds out of an MMDA account. While the Sweep Banks have indicated that they have no present intention of exercising their right to require such notice, the Sweep Banks may exercise this right at any time at their sole discretion.

Transaction Limitations for Business Accounts

For Business Accounts, Federal banking regulations also require us to impose limitations on certain transfers and withdrawals from your Deposit Account. Under these regulations, in any calendar month you may make no more than six transfers and withdrawals, which includes transactions made by check, wire, debit card (e.g., transactions at a merchant’s point-of-sale terminal) or similar order and payable to third parties. ATM withdrawals are not subject to these restrictions. If you exceed these restrictions, we reserve the right to close your Deposit Accounts and end your participation in the Program. Upon ending your participation in the Program, available cash in your Account will sweep into an affiliated money market fund (the “Default Money Market Fund Sweep”), unless and until you contact your Financial Advisor to change your sweep investment. For AAA and Business AAA clients, the Default Money Market Fund Sweep is Active Assets Money Trust (“AAMT”). For BSA and Business BSA clients, the Default Money Market Fund Sweep is the Liquid Asset Fund (“ILAF”).

Fee to Morgan Stanley Smith Barney

Each Sweep Bank will pay Morgan Stanley Smith Barney a fee equal to the percentage of the average daily deposit balances in your Deposit Account at the Sweep Bank. The fee paid to Morgan Stanley Smith Barney may be a substantial portion of the amount the Sweep Bank is paying on the Deposit Accounts. In its discretion, Morgan Stanley Smith Barney may reduce its fee and may vary the

amount of the reduction between its clients. The amount of fee received by Morgan Stanley Smith Barney will affect the interest rate paid by the Sweep Bank on your Deposit Accounts. Of the fee received by Morgan Stanley Smith Barney, your Financial Advisor may receive credit of 0.10% of the average daily deposit balance in your Deposit Accounts and is paid a portion of this credited amount based on his or her payout rate. Your Financial Advisor will not receive the foregoing fees or credits for Managed Accounts. In addition, Morgan Stanley Smith Barney will not receive cash compensation or credits in connection with the Program for assets in the Deposit Accounts for **IRA and ERISA Managed Accounts**. Affiliates of Morgan Stanley Smith Barney, however, may receive a financial benefit in the form of credit allocations made for financial reporting purposes.

No other charges, fees or commissions will be imposed on your Account as a result of or otherwise in connection with the Program.

Conflicts of Interest and Other Benefits to Morgan Stanley Smith Barney, the Sweep Banks and Their Affiliates

Morgan Stanley Smith Barney, the Sweep Banks and their affiliates may receive other financial benefits in connection with the Program.

Morgan Stanley Smith Barney may receive other compensation based on a formula that takes into account the funds deposited through the Program.

The amount of such compensation may vary.

Through the Program, each Sweep Bank will receive a stable, cost-effective source of funding. Each Sweep Bank intends to use deposits in the Deposit Accounts at the Sweep Bank to fund current and new businesses, including lending activities and investments. The profitability on such loans and investments is generally measured by the difference, or “spread,” between the interest rate paid on the Deposit Accounts at the Sweep Bank and other costs of maintaining the Deposit Accounts, and the interest rate and other income earned by the Sweep Bank on those loans and investments made with the funds in the Deposit Accounts. The income that a Sweep Bank will have the opportunity to earn through its lending and investing activities is expected to be greater than the fees earned by Morgan Stanley Smith Barney and its affiliates from managing and distributing the money market funds available to you as a sweep investment.

Margin

Funds in the Deposit Accounts cannot be used for margin purposes. If you wish to utilize your cash assets for margin purposes, you must make an alternative sweep selection, if applicable, or use your cash assets to purchase an investment that can be used for margin purposes.

Information About Your Deposit Accounts

Your Account statement from Morgan Stanley Smith Barney will reflect the balances in the Deposit Accounts at each Sweep Bank. Your Account statement will also show activity with respect to your Deposit Accounts, the total of your opening and closing Deposit Account balances and the interest earned for the period beginning on the last business day of the prior month (or, in the case of quarterly statements, the last business day of the month prior to the first month of the quarter) up to, but not including, the last business day of the statement period. If, after electing the Program, your funds are first swept on the next to last business day of the month, the interest earned on that day will be reflected in your next Account statement.

Your Account statement will not show the movement of funds between the NOW account and the related MMDA at a Sweep Bank or among Sweep Banks. Morgan Stanley Smith Barney is responsible for the accuracy of your Account statements, not the Sweep Banks. All statements will be considered conclusive and binding unless you object in writing within 10 days of the date the statement is mailed to you. Your Financial Advisor can assist you in understanding your statement and can respond to any questions you may have. You should retain your Account statements for your records.

Program Amendment and Additional Depository Institutions

Morgan Stanley Smith Barney, at its discretion, may modify the terms, conditions and procedures of the Program, including, but not limited to, the methodology used to determine the interest rates on Deposit Accounts. Morgan Stanley Smith Barney will notify you of any such changes that adversely affect you. All such notices may be made by means of a letter, an entry on your Account statement or by other means. In addition, other depository institutions may be added at any time to the Program and one or more of the existing Sweep Banks may be removed. If Morgan Stanley Smith Barney adds depository institutions to the Program or changes the deposit and withdrawal procedures, you will be notified prior to your funds being deposited with that depository institution of the implementation of

any change to the deposit and withdrawal procedures. In the event a depository institution is added to the Program, you authorize Morgan Stanley Smith Barney to withdraw funds from your Deposit Accounts at the Sweep Banks in excess of the Deposit Limit and deposit the funds in the Deposit Accounts that are established at the additional depository institution.

If FDIC deposit insurance limits are changed, Morgan Stanley Smith Barney may adjust the Deposit Limit without prior notice to you. You will be informed of such change by a posting on our website and a confirming letter, an entry on your Account statement or by other means. If Morgan Stanley Smith Barney changes the Deposit Limit pursuant to this paragraph, we may move your funds from one Sweep Bank to another Sweep Bank in order to reflect the change in the Deposit Limit.

If a Sweep Bank in which you have Deposit Accounts no longer makes the Deposit Accounts available through the Program, you will be notified by Morgan Stanley Smith Barney and given the opportunity to establish a direct depository relationship with the Sweep Bank (subject to its rules and requirements with respect to establishing and maintaining deposit accounts). The consequences of maintaining a direct depository relationship with a Sweep Bank are discussed below under “Your Relationship with Morgan Stanley Smith Barney, Morgan Stanley and the Sweep Banks.” If you choose not to establish a direct depository relationship with the Sweep Bank, your funds will be withdrawn from the Sweep Bank and redeposited with the remaining Sweep Bank and/or other depository institution, as applicable.

Your Relationship with Morgan Stanley Smith Barney, Morgan Stanley and the Sweep Banks

The Program is being offered to you by Morgan Stanley Smith Barney, through its relationship with Morgan Stanley. Morgan Stanley is acting as your agent and custodian in establishing the Deposit Accounts at each Sweep Bank and depositing funds into, withdrawing funds from and transferring funds among the Deposit Accounts at each Sweep Bank and among Sweep Banks. Therefore, all transactions, including, if applicable, checks written on your Account and charges on your MasterCard World and World Elite Card,[®] are effected through Morgan Stanley, as your Clearing Firm and as agent and custodian, respectively, and are not effected directly by you at the Sweep Banks. The Sweep Banks have, however, contractually agreed to provide certain individual account

recordkeeping for IRAs and ERISA Accounts to Morgan Stanley as a condition for participation in the Program. No evidence of ownership, such as a passbook or certificate, will be issued to you. Deposit Account ownership will be evidenced by a book entry in one or more master deposit accounts established by Morgan Stanley and maintained on the account records of the Sweep Banks. Your Deposit Accounts at each Sweep Bank will be evidenced by records maintained by Morgan Stanley as your agent and custodian. We may, in our sole discretion, terminate your participation in the Program at any time upon written notice to you. Similarly, you may at any time terminate your participation in the Program. If either we or you terminate your participation in the Program, you may request and establish a direct depository relationship with a Sweep Bank, subject to the Sweep Bank's rules and requirements with respect to establishing and maintaining accounts. This will result in your owning deposit accounts that are separate from your Account. We will have no further obligation with respect to such deposit accounts.

Each Deposit Account at each Sweep Bank constitutes an obligation of the Sweep Bank and is not directly or indirectly an obligation of Morgan Stanley Smith Barney or Morgan Stanley. You can obtain publicly available financial information concerning each Sweep Bank at <http://www.ffiec.gov/nicpubweb/nicweb/nichome.aspx> or by contacting the FDIC Public Information Center by mail at 3501 North Fairfax Drive, Arlington, VA 22226 or by phone at 1-877-275-3342. We do not guarantee in any way the financial condition of a Sweep Bank or the accuracy of any publicly available financial information concerning a Sweep Bank.

FDIC Insurance

General Information

Funds in the Deposit Accounts at each Sweep Bank are insured by the FDIC, an independent agency of the U.S. government, up to the Maximum Applicable Insurance Limit (including principal and accrued interest) per depositor when aggregated with all other deposits held by you in the same insurable capacity at the Sweep Bank. Your funds become eligible for deposit insurance immediately upon deposit in a Deposit Account at a Sweep Bank.

Any deposits (including CDs) that you maintain in the same insurable capacity directly with a Sweep Bank, or through an intermediary (such as Morgan Stanley Smith Barney or another broker), will be aggregated with your Deposit Accounts at the Sweep Bank for purposes of the Maximum Applicable Insurance Limit. You are responsible for monitoring the total amount

of deposits that you have with each Sweep Bank in order to determine the extent of deposit insurance coverage available to you. We are not responsible for any insured or uninsured portion of a Deposit Account at a Sweep Bank.

In the event a Sweep Bank fails, the Deposit Accounts at the Sweep Bank are insured, up to the Maximum Applicable Insurance Limit, for principal and interest accrued to the day the Sweep Bank is closed. Under certain circumstances, if you become the owner of deposits at a Sweep Bank because another depositor dies, beginning six months after the depositor's death, the FDIC will aggregate those deposits for purposes of the FDIC insurance limit with any other deposits that you own in the same insurable capacity at the Sweep Bank. Examples of deposit accounts that may be subject to this FDIC policy include joint accounts, "payable on death" accounts and certain trust accounts. The FDIC provides the six-month "grace period" to permit you to restructure your deposits to obtain the maximum amount of deposit insurance for which you are eligible.

The Maximum Applicable Insurance Limit has been increased to \$250,000 through December 31, 2013. Insurance coverage will revert to \$100,000 on January 1, 2014, for all insurable capacities except certain retirement accounts and plans discussed below. The application of the Maximum Applicable Insurance Limit is illustrated by several common factual situations discussed below.

Individual Accounts

Deposits of a Sweep Bank held by an individual in an account in the name of an agent or nominee of such individual (such as the Deposit Accounts) or held by a custodian (for example, under the Uniform Gifts to Minors Act or the Uniform Transfers to Minors Act) are not treated as owned by the agent, nominee or custodian, but are added to other deposits of such individual held in the same insurable capacity (including funds held in a sole proprietorship) and insured up to \$250,000 in the aggregate.⁶

Corporate, Partnership and Unincorporated Association Accounts

Deposits of a Sweep Bank owned by corporations (including Subchapter S corporations), partnerships and unincorporated associations, operated for a purpose other than to increase deposit insurance, are added together with other deposits owned by such corporation, partnership and unincorporated association, respectively, and are insured up to \$250,000 in the aggregate.

Joint Accounts

An individual's interest in deposits of a Sweep Bank held under any form of joint ownership valid under applicable state law may

be insured up to \$250,000 in the aggregate, separately and in addition to the \$250,000 allowed on other deposits individually owned by any of the co-owners of such accounts. For example, a joint account owned by two persons would be eligible for insurance coverage of up to \$500,000 at each Sweep Bank (\$250,000 for each person), subject to aggregation with each owner's interests in other joint accounts at the same Sweep Bank. Joint accounts will be insured separately from individually owned accounts only if each of the co-owners is an individual person and has a right of withdrawal on the same basis as the other co-owners.

Revocable Trust Accounts⁶

Deposits of a Sweep Bank held pursuant to a "revocable trust" are generally insured up to \$250,000 per beneficiary if the beneficiary is a natural person, charity or other nonprofit organization. There are two types of revocable trusts recognized by the FDIC, informal and formal revocable trusts.

Informal revocable trusts include accounts in which the owner evidences an intent that at his or her death the funds shall belong to one or more specified beneficiaries. These trusts may be referred to as a "Totten trust" account, "payable upon death" account or "transfer on death" account. Each beneficiary must be included in the Firm's account records to be insured by the FDIC.

Formal revocable trusts are written trust arrangements in which the owner retains ownership and control of the assets and designation of beneficiaries during his or her lifetime. The trusts may be referred to as "living" or "family" trusts. The beneficiaries of a formal revocable trust do not need to be included in the Firm's account records to be insured by the FDIC.

Under FDIC rules, FDIC coverage for each revocable trust account owner is \$250,000 per beneficiary, regardless of the proportional interest of the beneficiary in the revocable trust, if the trust has no more than five named beneficiaries and deposit balances of no more than \$1,250,000 at a Sweep Bank. If the revocable trust has more than five named beneficiaries and more than \$1,250,000 in deposits per trust account owner at a Sweep Bank, the funds will be insured for the greater of \$1,250,000 or the aggregate amount of all beneficiaries' proportional interest, limited to \$250,000 per beneficiary, for each account owner. Revocable trust accounts are insured separately from the deposits of the account owner in his/her individual capacity.

Deposits in all revocable trusts of the same owner—informal and formal—at the same Sweep Bank will be aggregated for insurance

purposes. A revocable trust established by two owners where the owners are the sole beneficiaries will be treated as a Joint Account under applicable rules and will be aggregated with their other Joint Accounts.

Irrevocable Trust Accounts and CESAs⁶

Deposits of a Sweep Bank held pursuant to one or more irrevocable trust agreements created by the same grantor (as determined under applicable state law) will be insured for up to \$250,000 for the interest of each beneficiary provided that the beneficiary's interest in the account is noncontingent (i.e., capable of determination without evaluation of contingencies). According to the FDIC, CESAs will be treated as irrevocable trust accounts for deposit insurance purposes. The deposit insurance of each beneficiary's interest is separate from the coverage provided for other accounts maintained by the beneficiary, the grantor, the trustee or other beneficiaries. The interest of a beneficiary in irrevocable trust accounts at a Sweep Bank created by the same grantor will be aggregated and insured up to \$250,000.

Retirement Plans and Accounts

The Maximum Applicable Insurance Limit for deposits of a Sweep Bank that are held through one or more retirement plans and accounts will vary depending on the type of plan or account and, in some cases, the features of the plan or account.

The following sections discuss in general terms the rules that apply to deposits held through retirement plans and accounts. These rules determine the Maximum Applicable Insurance Limit available to you and whether your deposits at a Sweep Bank held through different retirement plans and accounts will be aggregated for purposes of that Limit.

The Maximum Applicable Insurance Limit has been increased to \$250,000 through December 31, 2013. Insurance coverage will revert to \$100,000 on January 1, 2014, except for IRAs, Section 457 Plans, self-directed Keogh plans and certain self-directed defined contribution plans, which will continue to be covered up to \$250,000.

Pass-Through Deposit Insurance for Employee Benefit Plan Deposits

Subject to the limitations discussed below, under FDIC regulations, an individual's noncontingent interests in the deposits of a Sweep Bank held by many types of plans are eligible for insurance up to the Maximum Applicable Insurance Limit on a pass-through basis. This means that instead of an employee benefit plan's deposits at

one Sweep Bank being entitled to only the Maximum Applicable Insurance Limit in total per Sweep Bank, each participant in the employee benefit plan is entitled to insurance of his or her noncontingent interest in the employee benefit plan's deposits of up to the Maximum Applicable Insurance Limit per Sweep Bank (subject to the aggregation of the participant's interests in different plans, as discussed below). The pass-through insurance provided to an individual as an employee benefit plan participant is separate from the Maximum Applicable Insurance Limit allowed on other deposits held by an individual in different insurable capacities with the Sweep Bank.

The types of plans for which deposits may receive pass-through treatment are employee benefit plans, as defined in Section 3(3) of ERISA (including Keogh plans, whether or not they are technically "employee benefit plans" under ERISA) and eligible deferred compensation plans described in Section 457 of the IRC. For purposes of Section 3(3) of ERISA, employee benefit plans are broadly defined to include most employee benefit plans, including most defined benefit plans and most defined contribution plans.

A deposit held by an employee benefit plan that is eligible for pass-through insurance is not insured for an amount equal to the number of plan participants multiplied by the Maximum Applicable Insurance Limit. For example, an employee benefit plan has \$500,000 in its Deposit Account at one Sweep Bank and the participants are thus eligible for up to \$250,000 per plan beneficiary. If the employee benefit plan has two participants, one with a noncontingent interest of \$320,000 and one with a noncontingent interest of \$180,000, the plan's deposit would be insured up to only \$430,000. The individual with the \$320,000 interest would be insured up to the \$250,000 limit and the individual with the \$180,000 interest would be insured up to the full value of such interest.

The contingent interests of employees in an employee benefit plan and over funded amounts attributed to any employee benefit plan are not insured on a pass-through basis. Contingent interests of employees in an employee benefit plan deposit are interests that are not capable of evaluation in accordance with FDIC rules and are aggregated and insured up to the Maximum Applicable Insurance Limit per Sweep Bank. Similarly, over funded amounts are insured, in the aggregate for all participants, up to the Maximum Applicable Insurance Limit separately from the insurance provided for any other funds owned by or attributable to the employer or an employee benefit plan participant.

Maximum Applicable Insurance Limit for Retirement Plans and Accounts

The retirement plans and accounts described below are eligible for a Maximum Applicable Insurance Limit of \$250,000 and all deposits held through such plans and accounts will be aggregated for purposes of that Limit. This means all deposits of a Sweep Bank that you hold through the plans and accounts described below will be eligible for insurance up to a total of \$250,000.

- **IRAs.** All deposits of a Sweep Bank held in IRAs will be aggregated for purposes of the Maximum Applicable Insurance Limit and will be further aggregated with deposits held through other plans described in this section.
- **Section 457 Plans.** These plans include any eligible deferred compensation plan described in Section 457 of the IRC.
- **Self-Directed Keogh and 401(k) Plans.** Deposits held in any plan described in Section 401(d) of the IRC, generally referred to as Keogh plans, and in any plan described in Section 3(34) of ERISA including, but not limited to, plans generally referred to as Section 401(k) plans. The plan must be "self-directed" as defined by the FDIC.

All retirement plans and accounts not listed above, including defined contribution plans and plans that do not meet the FDIC's "self-directed" criteria, will be eligible for federal deposit insurance up to \$250,000 per participant through December 31, 2013, subject to the aggregation rules described below. FDIC coverage for these plans is scheduled to revert to \$100,000 on January 1, 2014.

Additional Aggregation for Purposes of the Maximum Applicable Insurance Limit

In addition to the aggregation rules discussed above for retirement plans and accounts, under FDIC regulations an individual's interests in plans maintained by the same employer or employee organization (e.g., a union) which are holding deposits of the same Sweep Bank will be aggregated for purposes of the Maximum Applicable Insurance Limit. It is therefore important to understand the type of plan or account holding your deposits.

Payments Under Adverse Circumstances

In the event that federal deposit insurance payments become necessary, payments of principal plus accrued, but unpaid interest will be made to you. There is no specific time period during which the FDIC must make insurance payments available. Furthermore, you may be required to provide certain documentation to the FDIC or us before insurance payments are made. If your Deposit Accounts at

a Sweep Bank or other deposits at the Sweep Bank (e.g., CDs) are assumed by another depository institution pursuant to a merger or consolidation, such deposits will continue to be insured separately, up to the Maximum Applicable Insurance Limit, from the deposits that you might have established with the acquirer until (i) the maturity date of the CDs or other time deposits that were assumed, or (ii) with respect to deposits that are not time deposits, including Deposit Accounts, the expiration of a six-month period from the date of the acquisition. Thereafter, any assumed deposits will be aggregated with your existing deposits with the acquirer held in the same capacity for purposes of federal deposit insurance. Any deposit opened at the acquirer after the acquisition will be aggregated with deposits established with the acquirer for purposes of federal deposit insurance. Upon request, your Financial Advisor will provide you with a copy of the FDIC brochure "Your Insured Deposits, FDIC's Guide to Deposit Insurance Coverage." This brochure explains the application of the FDIC limit to various types of accounts (e.g., individual, joint, IRA).

*As described to you in other Morgan Stanley Smith Barney documents, Morgan Stanley Smith Barney has entered into an agreement with Morgan Stanley, as your Clearing Firm, to, among other things, make accessible certain banking-related products and services. The terms "we," "our" and "us" are used herein to refer to Morgan Stanley Smith Barney and/or Morgan Stanley, as applicable.

However, Morgan Stanley Smith Barney intends to terminate its agreement with the Clearing Firm no earlier than March 1, 2010, and, subject to regulatory approval, assume responsibility for providing all of the services previously provided by the Clearing Firm under the terms of their clearing agreement.

A "household" for these purposes will **not include any accounts that are held by you or members of your household with any Legacy Smith Barney Branch. For these purposes, a Legacy Smith Barney Branch is any Morgan Stanley Smith Barney Branch that was a Smith Barney Branch prior to the point at which Morgan Stanley Smith Barney started doing business as an Introducing Broker, as further described in other Morgan Stanley Smith Barney documentation.

¹ Free credit balance generally includes the uninvested cash in your Account minus certain items such as purchase transactions due to settle within a specified time period, other charges to your Account and credit balances that are designated as collateral for your obligations. Free credit balances are referred to in this Disclosure Statement as "cash" or "available cash."

² Includes the Traditional, SEP, SAR-SEP, SEP Traditional, Rollover, Rollover Combined, ROTH and SIMPLE Individual Retirement Accounts.

³ Employee benefit plans are (a) accounts of employer-sponsored plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (b) "qualified" retirement plans sponsored by employers that are subject to the qualification rules of the Internal Revenue Code of 1986, as amended ("IRC") (e.g., single-person plans) and/or (c) retirement programs subject to similar U.S. Rules and regulations (e.g., IRC section 403(b) or 457 plans sponsored by governmental or certain charitable employers).

⁴ The Sweep Banks are members of the FDIC.

⁵ Please note that the new Maximum Applicable Insurance Limit applies to CDs purchased in the primary and secondary markets. Unless the increased coverage is extended, FDIC insurance coverage for CDs with a maturity date after December 31, 2013, will revert to the prior FDIC coverage on January 1, 2014, regardless of when you purchased the CD. You should not rely on a possible extension of this increased coverage in purchasing CDs.

⁶ All trust Accounts have a \$245,000 Deposit Limit.

Unless otherwise specifically disclosed to you in writing, investments and services are offered through Morgan Stanley Smith Barney LLC, and accounts are carried by Morgan Stanley & Co. Incorporated; members SIPC. Such investments and services are not insured by the FDIC, are not deposits or other obligations of, or guaranteed by, the Banks and involve investment risks, including possible loss of principal amount invested. Morgan Stanley Smith Barney LLC and Morgan Stanley & Co. Incorporated are registered broker-dealers, not banks.

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Questions About FDIC Deposit Insurance Coverage

If you have questions about basic FDIC insurance coverage, please contact your Financial Advisor. You may wish to consult your attorney concerning FDIC insurance coverage of deposits held in more than one capacity. You may also obtain information by contacting the FDIC, Division of Supervision and Consumer Protection, by letter (Attn: Deposit Insurance Outreach, 550 17th Street, N.W., Washington, DC 20429), by phone (1-877-275-3342, 1-800-925-4618 (TDD)) or by accessing the FDIC website at www.fdic.gov.

SIPC Insurance

Balances maintained in the Deposit Accounts at each Sweep Bank are not protected by SIPC or any excess coverage purchased by Morgan Stanley Smith Barney. Clients may obtain information about SIPC, including the SIPC brochure, by contacting SIPC at 1-202-371-8300 or by visiting www.sipc.org.