

Understanding Your Brokerage and Investment Advisory Relationships

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Depending on your needs and your investment objectives, Morgan Stanley may assist you with brokerage services, investment advisory services or both. There are important differences highlighted below between brokerage and advisory accounts, including their costs, the services we provide and the rules that govern them. You should carefully consider these differences when deciding which type, or combination of types, of services and accounts are right for you.

Morgan Stanley is registered as both a broker-dealer and as an investment adviser under federal and state securities laws, and we provide services in both capacities. In accordance with the rules of the Financial Industry Regulatory Authority (FINRA), whether acting in a brokerage or advisory capacity, Morgan Stanley observes high standards of commercial honor and just and equitable principles of trade.

What are Brokerage Accounts and Services?

When we act as a broker-dealer in connection with your brokerage account, we will facilitate the execution of transactions based on your instructions. In addition, when we act as a broker, we also offer investor education, research, financial tools and personalized information about financial products and services, including recommendations about whether to buy, sell or hold securities. We do not charge a separate fee for these services because these services are part of, and incidental to, our brokerage services.

When we act as your broker-dealer, we do not have discretion to buy and sell securities for you (except in limited circumstances). Therefore, you will provide approval for each trade before it is executed and you will make individual buy, sell and hold decisions rather than us making those decisions.

What Is Morgan Stanley's Role When Handling A Brokerage Account?

When recommending securities transactions or investment strategies involving securities while providing brokerage services to you, we must act in your best interest,¹ which requires

that we do not put our interest ahead of yours. However, we generally do not have a fiduciary obligation to you nor do we have an investment advisory relationship with you. Please note the "best interest" obligation described herein applies only to Retail Customers, as defined in regulations issued, particularly, "Regulation Best Interest" by the SEC. A Retail Customer is defined as a natural person, or the legal representative of such natural person, who (A) receives a recommendation of any securities transaction or investment strategy involving securities from a broker, dealer or a natural person who is an

associated person of a broker or dealer, and regulations, the Employee Retirement Income Security Act of 1974, as amended, or “ERISA”, and any applicable professional conduct standards.

What are Investment Advisory Accounts and Services?

In addition to brokerage services offered to clients, Morgan Stanley offers a variety of investment advisory programs and services, including comprehensive financial planning, non-discretionary and discretionary portfolio management, and advice on the selection of professional asset managers and securities.

We must enter into a written agreement with you that describes our advisory relationship and our obligations to you before we can act as your investment adviser. You also will receive a disclosure document about our advisory services, called a Form ADV Brochure, that describes, among other things, our business, the services we provide, our advisory fees, our personnel, and potential conflicts between our interests and yours. Investment Advisers are governed by the Investment Advisers Act of 1940 and applicable state securities laws. When acting as your investment adviser, we have a fiduciary relationship with you. In addition, for advisory retirement accounts,² we act as a fiduciary under the Employee Retirement Income Security Act of 1974 (“ERISA”) and/or under Section 4975 of the Internal Revenue Code (the “Code”).

What is Your Financial Advisor’s Role When Handling an Investment Advisory Account?

Your Financial Advisor’s authority over the activity in your account will differ, depending on the nature of the investment advisory account you choose. For example, in our Portfolio

Management program, your Financial Advisor will have discretionary authority to execute investment decisions on your behalf. In our Consulting Group Advisor program, your Financial Advisor will work with you to make investment recommendations, but you will maintain discretion over all the investment decisions made in your account. In other advisory account types, your Financial Advisor will select or recommend investment products or third-party managers.

How You are Charged for Brokerage and Investment Advisory Accounts?

BROKERAGE ACCOUNTS

In a brokerage account, you generally compensate Morgan Stanley and your Financial Advisor through a commission for each equity transaction, a mark-up/mark-down for bond transactions and a sales charge for mutual fund transactions. Therefore, in a brokerage account your total costs will generally increase or decrease depending on the frequency of transactions in the account and the type of securities you purchase. Additional costs will also apply to your account.

INVESTMENT ADVISORY ACCOUNTS

In an investment advisory account, you generally compensate Morgan Stanley and our Financial Advisor through an annual fee, payable monthly, in advance based on the total value of the assets in your investment advisory account at the end of the previous month. This Morgan Stanley Advisory fee (“Advisory Fee”) typically covers our investment advisory services, trade execution through Morgan Stanley, custody of securities at Morgan Stanley, reporting, and compensation to your Financial Advisor. Depending upon the investment advisory program you select, you may also be charged a professional money manager’s (“Manager”) fee, as well as additional fees for platform maintenance.

Morgan Stanley or the Manager may determine that best execution is more likely to be achieved by having an external broker-dealer other than Morgan Stanley execute the transaction, even if such broker-dealer requires payment of a fee or other charges. This applies to certain transactions, including, without limitation, block trades in which Morgan Stanley or the Manager aggregates securities purchases or sales for the account with those of one or more of its other clients. In such instances, your account will be charged a commission or commission equivalent. These costs are in addition to the Advisory Fee you pay to Morgan Stanley and will be included in the net price of the security but will not be reflected as a separate charge on your trade confirmations or account statements.

Certain Managers have historically directed most, if not all, of their trades to external broker-dealers. The information provided by Managers concerning trade execution away from Morgan Stanley is summarized at: <http://www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf>. For more information on trading and costs, please refer to the ADV Brochure for your applicable program, available at <http://www.morganstanley.com/ADV>, or by contacting your Financial Advisor or Private Wealth Advisor.

In evaluating which broker or dealer will provide the best execution, Morgan Stanley, or the Manager, in its sole discretion and in accordance with applicable law (including the obligation to seek best execution), will consider the full range and quality of a broker’s or dealer’s services, which may include, among other things, the value of research provided, as well as, execution capability, commission rate, financial responsibility and responsiveness. These entities

¹ A recommendation meeting the “Best Interest” standard is a recommendation that reflects the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, based on your investment objectives, risk tolerance, financial circumstances and needs, without placing the financial or other interests of us or the Financial Advisor or any Affiliate, Related Entity, or other party ahead of your interest.

² Retirement accounts include Individual Retirement Account (“IRA”), Roth IRA, Health Savings Account, Coverdell Education Savings Account, Archer Medical Savings Account, a Plan covered by Title I of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), or a plan described in section 4975(e)(1)(A) of the Internal Revenue Code (“Code”).

may select broker-dealers that provide Morgan Stanley and/or the Manager research or other transaction-related services. This may result in a charge to you for broker-dealer commissions for effecting transactions that ends up being more expensive than the commission that other broker-dealers may have charged. Research and other services may be used for Morgan Stanley's or for the Manager's own or other client accounts to the extent permitted by law.

Our services and responsibilities, as well as, the applicable fees charge to your account, are described in detail in the investment advisory agreement that we enter into with you, the playback letter provided to you after account opening, and in the Form ADV Brochure applicable to the program you have selected.

BOTH BROKERAGE AND ADVISORY ACCOUNTS

In both brokerage and investment advisory accounts which include products such as mutual funds or exchange traded funds, additional expenses will be charged to you, including investment

management fees of the fund, as well as operating expenses that are reflected in the funds' share price. These expenses are not included in Morgan Stanley's fees.

Additional fees and expenses that are not outlined above, may apply as described in our agreements with you.

When We Act as Both Your Broker-Dealer and Your Investment Adviser

We may act as investment adviser and as broker-dealer to you at the same time. This does not mean that our brokerage relationships are advisory ones. For example, you may maintain multiple accounts (some brokerage accounts and some investment advisory accounts) with Morgan Stanley at the same time. Although we may consider your brokerage account assets in preparing guidelines or determining appropriate investments for your investment advisory accounts, our brokerage relationship only covers your brokerage assets.

For More Information

We encourage you to carefully consider the differences between brokerage and investment advisory services, particularly in terms of our obligations to you, the services we provide and the costs of those services. You should consider your existing and anticipated level of trading activity, the types of investments you wish to hold and the level of discretion you wish to retain over security selection when determining which account type is right for you. The Form ADV Brochures for each of our programs provides additional information, including disclosure of conflicts, and are available at: www.morganstanley.com/adv.

If you have additional questions, please contact a member of your Morgan Stanley team for more information.

When Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors (collectively, "Morgan Stanley") provide "investment advice" regarding a retirement or welfare benefit plan account, an individual retirement account or a Coverdell education savings account ("Retirement Account"), Morgan Stanley is a "fiduciary" as those terms are defined under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and/or the Internal Revenue Code of 1986 (the "Code"), as applicable. When Morgan Stanley provides investment education, takes orders on an unsolicited basis or otherwise does not provide "investment advice", Morgan Stanley will not be considered a "fiduciary" under ERISA and/or the Code. For more information regarding Morgan Stanley's role with respect to a Retirement Account, please visit www.morganstanley.com/disclosures/dol. Tax laws are complex and subject to change. Morgan Stanley does not provide tax or legal advice. Individuals are encouraged to consult their tax and legal advisors (a) before establishing a Retirement Account, and (b) regarding any potential tax, ERISA and related consequences of any investments or other transactions made with respect to a Retirement Account.