Dσmestic, Internαtiσnαl & Glσbαl ∑nhαnced Index Strαtegies

Strategy: Range Based Allocations

The discretionary Domestic, International & Global Enhanced Index Strategies seek to outperform the Russell 3000, MSCI ACWI ex US & ACWI respectively, by utilizing range based asset allocation and tactical risk overlays to exploit market inefficiencies while maintaining a diversified portfolio of sector, style, country and income based indices. This objective is twofold:

- To enhance returns as measured by alpha.
- To reduce risk and volatility as measured by both beta and standard deviation.

The strategies balance between equity and income style indices, allowing for addition or reduction to equity exposure dependent on range based asset allocation. Each of the equity holdings are traded on reactionary reversions to the new mean based on standard deviation band calculations that broaden or tighten as measured by algorithm computations including long, mid and short term market data. These algorithms allow small to moderate changes in exposure to each index unimpeded by market or manager emotion; this creates both addition (buy) and reduction (sell) ranges. The technology allows asset allocation changes to be made as immediately necessary intraday or months apart. The strategy is appropriate as part of a larger investment allocation, as determined by your Financial Advisor

Tactical Risk Management

The Strategies also incorporate a tactical risk overlay. Risk assessment and control have become increasingly difficult for investors to manage. Estimates of current market tactical risk are obtained from a robust statistical analysis of numerous market data points grouped into sixteen distinctively separate models. Models include:

- Fundamental
- Technical
- Speculation
- Behavioral & Momentum Risk, even investor emotion; both fear and greed

Each model is assigned a tactical risk score based on historical precedents. The higher risk models are weighted with larger scores as they breech a normalized state. This allows the strategy to adjust to market risk conditions by reducing equity exposure during higher risk measures and adding equity during low risk measures. The portfolio may range from 20% equity to 100% equity.

Tax Efficiency

Lack of active tax efficient trading may have a major impact on the growth of an investment portfolio. Due to the algorithm changes in exposure to individual sectors, style and country indices vs. selling entire positions in a traditionally managed portfolio, this strategy has been more tax efficient.

After numerous additions to an index or sector have surpassed a normal price return or have obtained high risk scores, small to moderate reductions are made to the portfolio. The computational power of the Morgan Stanley trading platform allows these positions to be offset against the best tax lot on each position for each individual investor portfolio. This may result in a more tax efficient trading process.

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Disclosures:

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Equity securities may fluctuate in response to news on companies, industries, market conditions and the general economic environment. Companies cannot assure or guarantee a certain rate of return or dividend yield; they can increase, decrease or totally eliminate their dividends without notice.

International investing may not be suitable for every investor and is subject to additional risks, including currency fluctuations, political factors, withholding, lack of liquidity, the absence of adequate financial information, and exchange control restrictions impacting foreign issuers. These risks may be magnified in emerging markets.

The **MSCI ACWI Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. This index is excluding the United States. (As of May 2011). An investment cannot be made directly in a market index.

Technical analysis is the study of past price and volume trends of a security in an attempt to predict the security's future price and volume trends. Its limitations include but are not limited to: the lack of fundamental analysis of a security's financial condition, lack of analysis of macro economic trend forecasts, the bias of the technician's view and the possibility that past participants were not entirely rational in their past purchases or sales of the security being analyzed. Investors using technical analysis should consider these limitations prior to making an investment decision.

Asset allocation and diversification do not guarantee a profit or protect against a loss in a declining financial market.

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Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. An investment cannot be made directly in a market index.

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