

Morgan Stanley

Are You Shouldering Too Much Responsibility in Your Retirement Plan?

As a 3(38) Fiduciary, Morgan Stanley Provides Comprehensive Fiduciary Protection

As a small-business owner, you have a lot on your plate beyond managing and growing your business. You know it's important to offer your employees a retirement program to help them save for the future. You also know a high-quality retirement plan can help attract and retain valuable talent as your business continues to grow. But administering an effective plan is complex, especially knowing regulatory requirements make it your responsibility—as the fiduciary of the plan—to monitor and select the investment options within the plan.

Unlike larger companies that have extensive resources to help manage the administration and fiduciary exposure underlying their 401(k) plans, your resources and time to focus on these important responsibilities are limited. Yet, despite these constricts, you still have the same regulatory obligations as larger organizations. We take the plan's regulatory burdens off your shoulders and on to ours, so you can stay focused on building your business.

Morgan Stanley is here to help.

At Morgan Stanley, we have developed a platform specifically designed for small-business owners. Our program bears the investment fiduciary responsibilities for your plan. We also provide access to our Global Investment Manager Analysis (GIMA) team. This group of 45 experienced analysts studies more than 14,000 investment managers, and manages over \$800 billion in assets under management. In the past, GIMA was only available to large, institutional clients; but

through our platform, you have access to the best minds and thought leaders of our firm.

Morgan Stanley delivers a boutique client experience coupled with the resources of a global leader. With a focus on the best interests of you and your employees, we apply our deep knowledge, experience and extensive resources to deliver world-class investment solutions while assuming considerable fiduciary responsibilities for the selection and monitoring of your plan's investments.

The Importance of Choosing a 3(38) Plan

By offering a retirement plan, you've taken a critical step to helping your employees prepare for a more secure future. With this decision, however, comes important duties. Management of the plan must be performed up to the fiduciary standards under the Employee Retirement Income Security Act of 1974 (ERISA).

Traditionally, many business owners have chosen an "ERISA 3(21)" plan, in which the plan sponsor hires a fiduciary to provide

it with investment advice in exchange for a fee. *In an ERISA 3(21) plan, the employer is ultimately held accountable for the investment decisions of the plan, including the selection of the plan's investment options.*

Today, many small-business owners are taking a closer look at "ERISA 3(38)" plans, due to heightened awareness of fiduciary responsibilities as a result of recent developments, both regulatory

and under emerging case law, regarding the selection and monitoring of investment options and associated plan fees. Under an ERISA 3(38) plan, the plan sponsor hires a fiduciary as an investment manager, responsible for managing the assets of the plan. *In a 3(38) plan, the employer is held accountable for choosing and monitoring the investment manager but is not liable for the investment decisions made by the investment manager.*



LEVEL OF FIDUCIARY ASSISTANCE

A Plan With No Investment Advice Assistance

Liability

You are liable for plan investments.

Investment Selection

You remain responsible for making updates to your plan's investment menu.



LEVEL OF FIDUCIARY ASSISTANCE

A Plan With ERISA 3(21) Investment Advice

Liability

You and another fiduciary each have liability for plan investment decisions.

Investment Selection

You receive advice from an investment advice fiduciary but still remain responsible for making updates to your plan's investment menu.



LEVEL OF FIDUCIARY ASSISTANCE

A Plan With an ERISA 3(38) Investment Manager

Liability

Morgan Stanley assumes full liability for the plan's investments.

Investment Selection

Morgan Stanley acts as an investment manager and will make ongoing updates to your plan's investment menu, as needed.

The Importance of Choosing an Experienced Investment Manager

For those business owners who prefer to leave the decisions about investment options to seasoned specialists, it's important to select an investment manager who has a disciplined and documented selection and monitoring process, along with significant experience managing funds for businesses and institutions.

At Morgan Stanley, we have the tools and expertise to help you make the right investment decisions for your plan and meet your fiduciary obligations:



Leadership

The GIMA team — with 42 years of experience delivering investment manager analysis — is a worldwide leader in manager analysis. GIMA is also among the first to market in many investment advisory platforms.



Intellectual Capital

GIMA leverages Morgan Stanley's global research organization with over 300 analysts and the firm's Global Investment Committee to integrate asset allocation and thought leadership into their platform.



Patented Methodology

A formal, patented process is used to identify strong investment managers that may lead to future outperformance relative to indexes and peers.¹



Access

As an advisor to institutions and individuals worldwide — with \$2.1 trillion in firmwide assets — Morgan Stanley has a pulse on capital markets and a vast network of industry contacts.

Source: As of July 20, 2016, Morgan Stanley Second Quarter Earnings



Recognition

With our team of leading thinkers, strategies and analysts, Morgan Stanley & Co. was recognized as one of the top-three research firms in 2015 by the All-American Research team survey in October 2015.²

Source: Institutional Investor, October 2015

Making a Difference, Getting Started

Morgan Stanley's entrepreneurial culture focuses on transparency and accountability. We are deeply and personally invested in your success, and understand the challenges of today's business and investment environment. As fiduciaries, we are required to act solely in the interest of plan participants and are committed to objective, customized strategies to help you take your business forward.

If you are interested in learning more about our discretionary investment platform, where we can serve as your retirement plan's ERISA 3(38) fiduciary, please reach out to your Morgan Stanley Financial Advisor.

¹ **Adverse Active Alpha (AAA)** is a patented screening and scoring process designed to help identify strong stock picking equity managers with characteristics that may lead to future outperformance relative to index and peers. While highly ranked managers performed well as a group in our Adverse Active Alpha model back tests, not all of the managers will outperform. In addition, highly ranked managers can have differing risk profiles that might not be suitable for all investors. Our view is that Adverse Active Alpha is a good starting point and should be used in conjunction with other information. Morgan Stanley Wealth Management's qualitative and quantitative investment manager due diligence process are equally important factors for investors when considering managers for use through an investment advisory program. Factors including, but not limited to, manager turnover and changes to investment process can partially or fully negate a positive Adverse Active Alpha ranking. Additionally, highly ranked managers can have differing risk profiles that might not be suitable for all investors. For more information on AAA, please see the Adverse Active Alpha Ranking Model and Selecting Managers with Adverse Active Alpha whitepapers. The whitepapers are available from your Financial Advisor or Private Wealth Advisor. ADVERSE ACTIVE ALPHA is a registered service mark of Morgan Stanley and/or its affiliates. U.S. Pat. No. 8,756,098 applies to the Adverse Active Alpha system and/or methodology.

² The 2015 All-America Research Team reflects the opinions of more than 3,600 individuals at 1,017 firms, including more than 90 of the 100 biggest U.S. equity managers. The respondents manage an estimated \$10.86 trillion in U.S. equities.

Global Investment Manager Analysis (GIMA) 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. 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."

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.

Tax laws are complex and subject to change. Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide tax or legal advice and are not "fiduciaries" (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise provided in writing by Morgan Stanley. Individuals are encouraged to consult their tax and legal advisors (a) before establishing a retirement plan or account, and (b) regarding any potential tax, ERISA and related consequences of any investments made under such plan or account.