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Morgan Stanley

The Sardonyx Group Investment Philosophy

The Sardonyx Group:

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Our team's portfolio managers are among a select group of Morgan Stanley Financial Advisors qualified by the firm based on training, experience, and commitment to manage client assets on a discretionary basis. We develop an investment strategy directly aligned with your unique needs and goals.

Our investment strategy is value oriented, highly diversified and follows a disciplined process. We believe risk management is fundamental in helping our clients navigate market volatility. We believe that asset allocation and active management are the primary drivers of investment returns. Client recommendations are based on their investment objectives, risk tolerance and investment horizon. We develop a customized portfolio of individual securities, mutual funds, Exchange-Traded Funds, bonds and closed-end funds, as appropriate for each client. Our investment model is designed for a moderately aggressive, total return investor with a time horizon of at least five years. We adapt the model to fit the needs of each individual client.

The Sardonyx Group's investment strategy currently has 15 subsectors, not necessarily defined by the basic stock/bond/cash size and style matrices commonly used. We choose from these subsectors to create a customized portfolio for each client. Actual portfolio allocations will vary based on a client's goals, risk tolerance and time horizon. The security subsectors are:

- Proprietary **Sardonyx** Large Cap Value Strategy
- Proprietary **Sardonyx** Investing for Growth Strategy
- Large Cap Value Stocks
- Large Cap Growth Stocks
- Small Cap Value & Growth Stocks
- Global Large Cap Value Stocks
- Commodities/Gold/Alternatives
- Proprietary **Sardonyx** Utility Strategy
- Mid Cap Growth Stocks
- International Small Cap Stocks
- International Energy Stocks
- Real Estate Securities
- Convertible Bonds
- Corporate Bonds
- Municipal Bonds

The Sardonyx Group's investment strategy is ***not*** simply a variation on the theme of the S&P 500. We believe our careful, disciplined approach can add significant value for our clients while helping to keep volatility under control. We will guide you through bull and bear markets with our goal to provide consistent results through our methodical and repeatable investment process.

Please see the next page for important disclosures and disclaimers.

IMPORTANT INFORMATION:

This material is intended only for clients and prospective clients of the Portfolio Management program in the United States. It has been prepared solely for informational purposes only and is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or other financial instrument, or to participate in any trading strategy.

The Sardonyx Group is a team of Morgan Stanley Portfolio Managers and other investment professionals. The Portfolio Managers on the team participate in the Morgan Stanley Portfolio Management program. The Portfolio Management program is an investment advisory program in which the client's Financial Advisor invests the client's assets on a discretionary basis in a range of securities.

To learn more about the Portfolio Management program, please contact your Morgan Stanley Financial Advisor. The Portfolio Management program is described in the applicable Morgan Stanley ADV Part 2, available at www.smithbarney.com/ADV or from your Financial Advisor.

Past performance of any security is not a guarantee of future performance. There is no guarantee that this investment strategy will work under all market conditions.

Holdings are subject to change daily, so any securities discussed in this profile may or may not be included in your account if you invest in this investment strategy. Do not assume that any holdings mentioned were, or will be, profitable.

The performance, holdings, sector weightings, portfolio traits and other data for an actual account may differ from that in this material due to various factors including the size of an account, cash flows within an account, and restrictions on an account.

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This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The strategies and/or investments discussed in this material may not be suitable for all investors. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

Diversification and asset allocation do not guarantee a profit or protect against a loss.

Investors should carefully consider the investment objectives and risks as well as charges and expenses of an exchange traded fund (ETFs), mutual fund and unit investment trusts (UITs) before investing. To obtain a prospectus, contact your Financial Advisor. The prospectus contains this and other information about ETFs, mutual funds and UITs. Read the prospectus carefully before investing.

Equity securities may fluctuate in response to news on companies, industries, market conditions, and general economic environment

Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies

REITs investing risks are similar to those associated with direct investments in real estate; lack of liquidity, limited diversification, and sensitivity to economic factors such as interest rate changes and market recessions.

Investing in smaller companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity.

Investing in physical commodities, such as gold and silver, exposes ETFs and mutual funds to other risk considerations such as potentially severe price fluctuations over short periods of time and storage costs that exceed the custodial and/or brokerage costs associated with the Fund's other portfolio holdings.

International investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economics.

The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Most municipal bonds are exempt from federal income tax. Typically, state tax-exemption applies if securities are issued and purchased from within one's state of residence. Likewise, local tax-exemption typically applies if securities are purchased and issued from within one's city of residence. Some bonds may be subject to the alternative minimum tax (AMT).

Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

Convertible securities are convertible to equity at the option of the holder. The market value of the securities, and the underlying common stock into which they are convertible, will fluctuate. In particular, securities whose value depends on the performance of an underlying security entail potentially higher volatility and risk of loss compared to traditional bond investments. FAs/PWAs should ensure investors are aware that the market value of convertible bonds may not correspond directly to increases or decreases in the underlying stock.

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