

# Investment Proposal

March 21, 2016

A personalized investment plan for

**CA ASSOCIATION FOR BILINGUAL  
EDUCATION**

Prepared by:

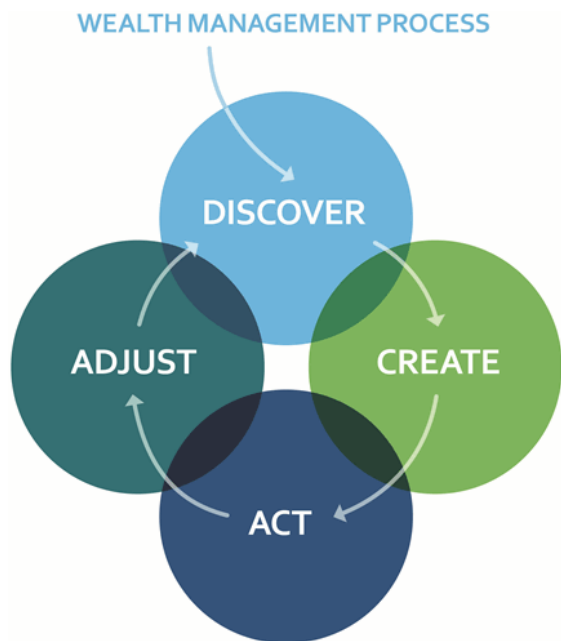
**SEAN PEAKE**  
FINANCIAL ADVISOR

2381 ROSECRANS #115  
EL SEGUNDO, CA, 90245  
tel: (310) 297-3761



# The Wealth Management Process

Leveraging our vast resources - including intellectual capital, experience, and dedicated personal service - we can work with you to create a personalized wealth strategy. Then, over time, we can adapt it to changing circumstances, helping you to pursue your goals.



## DISCOVER

Our relationship begins with a thorough understanding of you - your needs, your lifestyle, and family, and your goals for the future.

## CREATE

We work with you to develop a roadmap to help you pursue the outcomes you envision.

## ACT

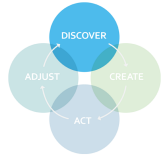
Next, we can help you implement investment, retirement, trust services, cash management and insurance solutions suited to your needs.

## ADJUST

Achieving your goals requires vigilance and flexibility. We help you monitor your progress and make adjustments as life evolves, markets, and tax laws shift, and priorities change.

### In this proposal:

Select UMA® Program	3
Your Investment Profile	4
Product Overview	6
Evaluation of Investment Products	9
Performance Review: Performance Statistics Before Fee	11
Performance Review: Risk/Return Analysis Before Fees	12
Summary of Services and Advisory Fee Schedule	13
Glossary of Terms	15
Important Disclosures	17



## SELECT UMA® PROGRAM

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

The ever-increasing complexity of investment management can make coordinating decisions a full-time job. Often it seems that there are too many accounts to oversee, too many investment strategies to consider, too many reports to review and too many tax statements to organize.

Morgan Stanley's Select UMA® is the unified managed account program that can provide the comprehensive investment services you need to help build your financial future. Through the program, you can receive one account for all your holdings-including separately managed accounts, mutual funds and exchange-traded funds in both traditional and alternative strategies\*-one asset allocation plan, one contract, one monthly statement, one comprehensive performance report and a single, consolidated year-end tax statement. All of which can help you simplify your investments as well as your financial life.

At Morgan Stanley, you can choose to give your Financial Advisor or the firm discretion to make investment decisions in your Select UMA account for you-or you can ask your Financial Advisor to give you advice so that you can make the final decisions. The Select UMA program includes the following features:

### INVESTING TAILORED TO YOUR NEEDS

Model portfolio options that focus on both active and passive investments.

### AUTOMATIC PORTFOLIO REBALANCING

Automated strategic or tactical rebalancing following changes to the asset allocation models and periodic portfolio rebalancing to maintain desired asset-class and investment-style allocations.

### COMPREHENSIVE PROCESS FOR MANAGER ANALYSIS

Rigorous, ongoing manager analysis coverage of your program holdings.

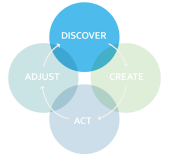
### ONE INTEGRATED ACCOUNT

Customized asset allocation that allows integration of the Select UMA account with other investment strategies.

### TAXES AND REPORTING

Optional tax-management services to help manage tax liabilities at the portfolio level coupled with comprehensive performance reporting that may include each investment strategy.

\* In the Select UMA program, alternative investments are limited to U.S. registered open-end mutual funds, exchange-traded funds (ETFs) and Separate Account Managers that seek to pursue alternative strategies or returns utilizing publicly traded securities.



## YOUR INVESTMENT PROFILE

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

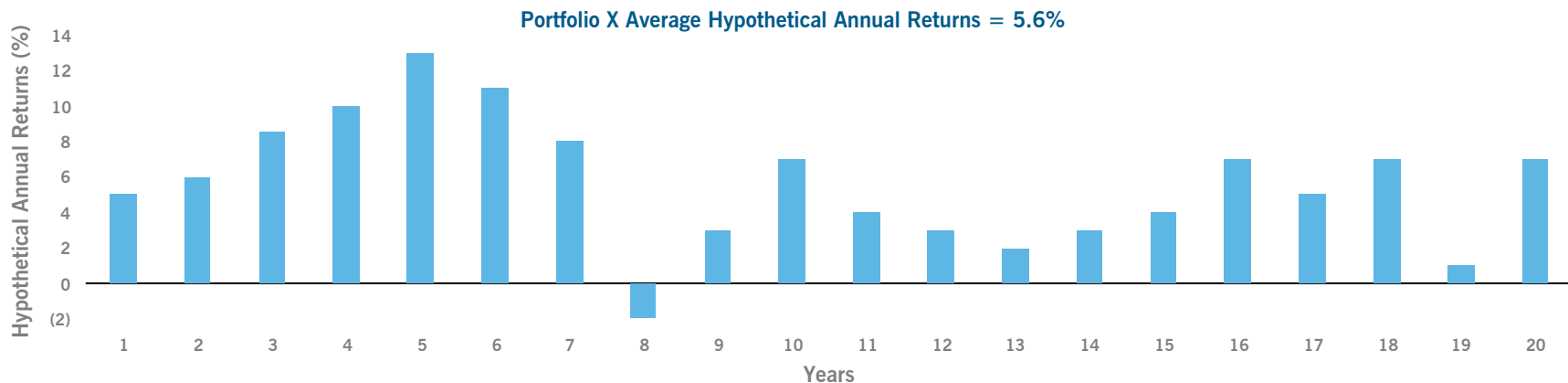
March 21, 2016

Our discussion of your financial needs and goals was the start of the process that enabled us to learn about you as an investor. Let's review what you told us:

- **You will be investing \$300,000.**
- **You have selected the Non Discretionary Program.**
- **You have selected a Single SMA Strategy.**

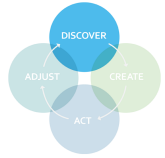
The following information depicts our understanding of your investment objectives and risk tolerance for your proposed Morgan Stanley Select UMA account.

- Your primary purpose for opening this account with Morgan Stanley is to **generate current income**.
- Morgan Stanley understands you **need to take regular withdrawals** from this account. You will need **less than 2%** of this account's current value annually.
- For this account, limiting risk and maximizing returns are of equal importance to you. You are **willing to accept moderate risk and a moderate chance of loss to seek moderate returns**.
- Given your investment goals for this account, you would choose a hypothetical portfolio over a 20 year period similar to the following:



**This portfolio is constructed to accept lower annual returns, but also to seek lower risk and volatility.** Please note that this is a hypothetical example only, for the purpose of gauging your tolerance for risk. This does not represent any actual historical results and does not include fees or charges that would lower your return. Actual results of any particular account may be less than the "Hypothetical Annual Returns" and "Average Hypothetical Annual Return" shown above, and may be negative.

Please review this information carefully. If you do not agree with this or any other information included in this proposal, please notify your Financial Advisor immediately. Also, please notify your Financial Advisor immediately of any change in the information in this proposal (including any change in your investment objectives or risk tolerance). To the extent that the investment suitability and objectives information noted above conflicts with any other information you communicate to us (e.g., via telephone, e-mail, or as permitted by program contract), the information contained in this proposal shall control with respect to the management of this account.



## YOUR INVESTMENT PROFILE

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

- The risk of a portfolio suffering a decrease in value (having a negative return) is often a primary concern for investors. In seeking to achieve potentially higher returns, however, an investor must be willing to accept greater risk. Given your investment objective for this account, you would be most comfortable investing this account in a hypothetical portfolio similar to the following:

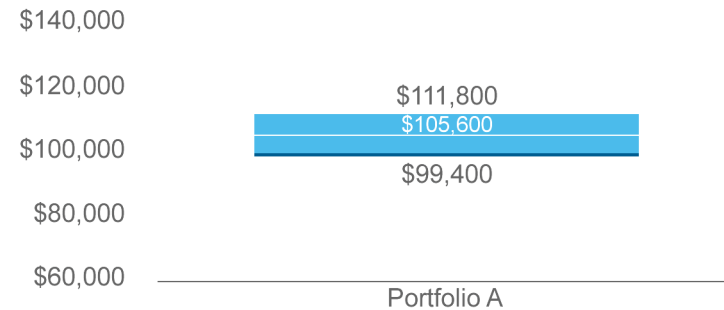
### RISK - NEGATIVE RETURN

Portfolio	Hypothetical value of \$100,000 After 1 Year	Hypothetical Chance of Losing Money After 1 Year
Portfolio A	\$105,600	3.5%

**This portfolio is constructed to accept a lower hypothetical value, but also to seek a lower chance of losing money, after one year.** Please note that this is a hypothetical example only, for the purpose of gauging your tolerance for risk. This does not represent any actual historical results and does not include fees or charges that would lower your return. Actual results of any particular account may be less than the "Hypothetical Value" shown above, and may be negative.

- The bar chart on the right shows a range of hypothetical one-year ending values for a \$100,000 initial investment in a portfolio. The hypothetical value of the average return for that portfolio is shown in the center of the bar. Given possible outcomes for various portfolios, you would consider the following hypothetical portfolio to be suitable for you in light of your investment objective for this account. At the end of a given year, this portfolio has **hypothetical ending values between \$111,800 (11% return) and \$99,400 (negative 1% return). The hypothetical average ending value of this portfolio after one year is approximately \$105,600 (6% return).** This portfolio is constructed to accept a lower hypothetical average ending value, but also to seek a narrower range of one-year ending values.

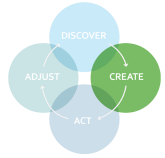
### HYPOTHETICAL PORTFOLIO RETURNS BASED ON RISK



It is important to remember that a hypothetical portfolio such as that shown above is more likely to achieve the average return over long-term holding periods. Please note that this is only a hypothetical example, for the purpose of measuring your tolerance for risk. Actual results will vary, and may be worse than the lowest outcome shown on the bar chart above. This bar chart does not represent any actual historical results and does not include fees or charges that would lower your return.

- Inflation can greatly erode the return on your investments, especially over time. **For this account, you prefer a portfolio that has the potential to exceed inflation moderately over the long run and are willing to accept moderate short-term fluctuations in value (and a moderate potential for loss) to achieve this goal.**
- Sometimes investment losses are permanent, sometimes they are prolonged, and sometimes they are short lived. Morgan Stanley understands that **if you experienced substantial investment losses, you would wait one to two quarters before adjusting your portfolio.**

Please review this information carefully. If you do not agree with this or any other information included in this proposal, please notify your Financial Advisor immediately. Also, please notify your Financial Advisor immediately of any change in the information in this proposal (including any change in your investment objectives or risk tolerance). To the extent that the investment suitability and objectives information noted above conflicts with any other information you communicate to us (e.g., via telephone, e-mail, or as permitted by program contract), the information contained in this proposal shall control with respect to the management of this account.



## PRODUCT OVERVIEW: EATON VANCE MANAGEMENT

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

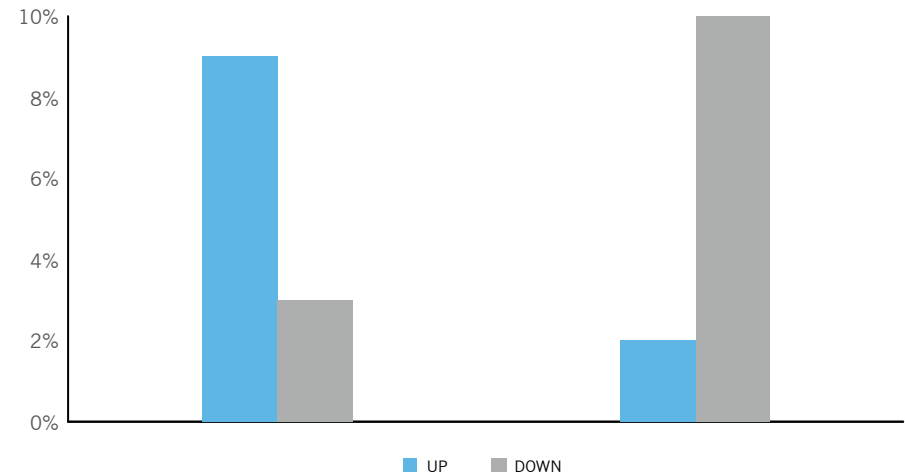
### OVERVIEW

Fundamental credit research is the foundation of the fixed income investment process at Eaton Vance and they believe it is critical to generating attractive returns in a laddered corporate bond portfolio. The credit process is primarily focused on assessing the risks of owning corporate credits to assess whether they are fully compensated for taking that risk. After Eaton Vance has performed the credit analysis, they look at the structure of the bond. While credit analysis focuses on evaluating the probability of repayment by a given issuer, structural analysis concentrates on the timing of a given bond's cash flows. In the laddered corporate bond portfolios, Eaton Vance seeks to produce consistent and competitive income streams, so they generally avoid bonds with any imbedded options. As part of the risk-return assessment, their traders provide input on liquidity. Their team then determines if the expected return is attractive given the risk assessment. When constructing client portfolios, their first step is to review client mandated constraints. Before executing any trades, Eaton Vance models the proposed portfolio in their analytics system to ensure that the strategy is executable from the beginning. The objective of their collaborative investment process is to utilize fundamental and quantitative credit analysis to construct a diversified portfolio from the bottom-up that meets their clients' unique objectives, while strictly adhering to their individual maturity and quality constraints. After Eaton Vance has identified possible corporate issuers, they perform rigorous bottom-up credit and structural analysis on each security before it can be considered for portfolio inclusion. They look for companies with: 1. Proven management teams; 2. Positive industry fundamentals; 3. Improving operating results; 4. Attractive security terms 5. Strong asset coverage

### PORTFOLIO STATISTICS

PORTFOLIO STATISTICS	09/15		03/15
	Eaton Vance Management	Default Mao Code	Eaton Vance Management
Average Coupon	3.85%		4.38%
Average Duration	2.59		2.49
Average Maturity	2.79		2.69
Number of Bond Holding	299.0		0.0
Average Credit Quality	A		BBB

### UP / DOWN QUARTERS



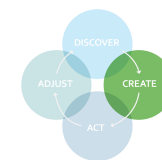
Name	UP	DOWN
Eaton Vance Management(Gross)	9.00%	3.00%
Eaton Vance Management(Net)	2.00	10.00

Please see the Global Investment Manager Analysis Report for more information on this manager.

## PRODUCT OVERVIEW: EATON VANCE MANAGEMENT

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016



### PORTFOLIO'S TOP 5 HOLDINGS<sup>1</sup>

%

### FIXED INCOME SECTOR DISTRIBUTION(%)<sup>+</sup>

	09/15	06/15	03/15	12/14
Cash	2.71	4.99	3.00	0.00
Corporates	97.29	95.01	97.00	0.00

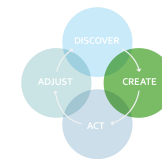
Please see the Global Investment Manager Analysis Report for more information on this manager.

<sup>1</sup>Top five holdings and sector allocation are based on the holdings in the accounts in the composites. Holdings lists indicate the largest security holdings by allocation weight. Top five holdings and sector allocation are measured as a percentage of the total portfolio in terms of asset value as of the specified date.

## PRODUCT OVERVIEW: EATON VANCE MANAGEMENT

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

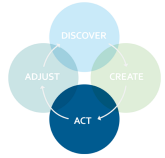


PORTFOLIO MATURITY STRUCTURE (%) +	09/15	06/15	03/15	12/14
0 to 2 Years	30.25	24.06	33.00	0.00
2 to 4 Years	45.08	46.45	45.00	0.00
4 to 6 Years	21.78	29.49	21.00	0.00
6 to 8 Years	2.21	0.00	0.00	0.00
8 to 12 Years	0.68	0.00	0.00	0.00
Over 17 Years	0.00	0.00	1.00	0.00

PORTFOLIO'S CREDIT QUALITY STRUCTURE(%) +	09/15	06/15	03/15	12/14
AAA/Government Agencies	0.54	0.69	0.00	0.00
AA	8.71	11.00	3.00	0.00
A	47.92	75.72	47.00	0.00
BBB	42.83	3.19	50.00	0.00

Please see the Global Investment Manager Analysis Report for more information on this manager.





## EVALUATION OF INVESTMENT PRODUCTS

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

In the Select UMA program, we offer a wide range of Investment Products (including Sub-Managers, mutual funds and ETFs) that we have selected and approved. We also offer Investment Products ("MSSB Investment Products") in the Select UMA program which are affiliated with MSSB and which GIMA does not evaluate or approve. The remainder of this section ("EVALUATION OF INVESTMENT PRODUCTS"), as well as any references in this proposal to Investment Products being evaluated or approved (or on the "Focus List" or "Approved List") does not apply to MSSB Investment Products.

Morgan Stanley GIMA evaluates Investment Products. GIMA may delegate some or all of its functions to an affiliate or third party. Investment Products may only participate in the Select UMA program if they are on GIMA's Focus List or Approved List discussed below. The Focus List and Approved List are available at [www.morganstanleyindividual.com/accountoptions/managedmoney/manager/default.asp](http://www.morganstanleyindividual.com/accountoptions/managedmoney/manager/default.asp) (or you can ask your Financial Advisor for these lists). Only some of the Investment Products may be available in the Select UMA program.

In addition to requiring that Investment Products be on the Focus List or Approved List, we look at other factors in determining which Investment Products we offer in the Select UMA program, including:

- program needs (such as whether we have a sufficient number of Investment Products available in an asset class),
- client demand and
- the Sub-Manager's or Fund's minimum account size.

We automatically terminate Investment Products in the Select UMA program if GIMA downgrades them to "Not Approved." We may terminate Investment Products from the program for other reasons (e.g., the Investment Product has a low level of assets under management in the program, the Investment Product has limited capacity for further investment, or the Investment Product is not complying with our policies and procedures).

**Focus List.** To be considered for the Focus List, Investment Products provide GIMA with relevant documentation on the strategy being evaluated, which may include sample portfolios, asset allocation histories, its Form ADV (the form that investment managers use to register with the SEC), past performance information and marketing literature. For verification purposes, as part of the review process, GIMA may compare the Sub-Manager's/Fund's reported performance with the performance of a cross-section of actual accounts calculated by GIMA. GIMA personnel may also interview the Sub-Manager or Fund and its key personnel, and examine its operations. Following this review process,

Investment Products are placed on the Focus List if they meet the required standards for Focus List status.

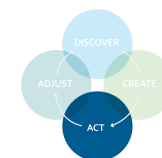
GIMA periodically reviews Investment Products on the Focus List. GIMA considers a broad range of factors (which may include investment performance, staffing, operational issues and financial condition). Among other things, GIMA personnel interview each Sub-Manager or Fund periodically to discuss these matters. If GIMA is familiar with a Sub-Manager or Fund following repeated reviews, GIMA is likely to focus on quantitative analysis and interviews and not require in-person meetings. GIMA may also review the collective performance of a composite of the Morgan Stanley accounts managed by a Sub-Manager/Fund and compare this performance to overall performance data provided by the Sub-Manager/Fund, and then investigate any material deviations.

**Approved List.** The process for considering Investment Products for the Approved List is less comprehensive than for the Focus List, and evaluates various qualitative and quantitative factors. These may include personnel depth, turnover and experience; investment process; business and organization characteristics; and investment performance. GIMA may use an algorithm – a rules-based scoring mechanism – that reviews various qualitative and quantitative factors and ranks each Investment Product in a third party database. (Not all Investment Products reviewed for the Approved List are subject to this algorithm.) GIMA analysts analyze the information contained in the algorithm to gauge the completeness and consistency of the data which drive the rankings, and then send the Sub-Manager or Fund additional information requests. GIMA then determines whether the Investment Product meets the standards for Approved List status. Furthermore, GIMA may evaluate an Investment Product under the evaluation process for the Focus List but then decide to instead put it on the Approved List.

GIMA periodically evaluates Investment Products on the Approved List to determine whether they continue to meet the Approved List standards.

**Changes in Status from Focus List to Approved List.** In light of the differing evaluation methodology and standards for the Focus List and Approved List, GIMA may determine that an Investment Product no longer meets the criteria for the Focus List or will no longer be reviewed under the Focus List review process, but meets the criteria for the Approved List. If so, we generally notify program clients regarding such status changes on a quarterly basis.

**Changes in Status to Not Approved.** GIMA may determine that an Investment Product no longer meets the criteria under either evaluation process and, therefore, the Investment Product will no longer be recommended in our investment advisory programs. We notify affected clients of these downgrades. You cannot retain a downgraded Sub-Manager or Fund in your Select UMA account and must select a replacement from the Approved List or Focus



## EVALUATION OF INVESTMENT PRODUCTS

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

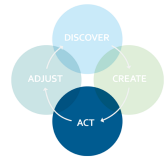
List, that is available in the program, if you wish to retain the program's benefits in respect of the affected assets.

In some circumstances, you may be able to retain terminated Investment Products in another advisory program or in a brokerage account, subject to the regular terms and conditions applying to that program or account. Ask your Financial Advisor about these options.

In the Select UMA program, we generally specify a replacement Investment Product for a terminated Investment Product. In selecting the replacement Investment Product, GIMA generally looks for an Investment Product in the same asset class, and with similar attributes and holdings to the terminated Investment Product. The replacement Investment Product will typically be on the Focus List.

**Watch Policy.** GIMA has a "Watch" policy for Investment Products on the Focus List and Approved List. Watch status indicates that, in reviewing an Investment Product, GIMA has identified specific areas of the Sub-Manager's or Fund's business that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the Investment Product becoming "Not Approved." Putting an Investment Product on Watch does not signify an actual change in GIMA opinion nor is it a guarantee that GIMA will downgrade the Investment Product. The duration of a Watch status depends on how long GIMA needs to evaluate the Investment Product and for the Investment Product to address any areas of concern. For additional information, ask your Financial Advisor for a copy of GIMA 's Watch Policy.

**Tactical Opportunities List.** GIMA also has a Tactical Opportunities List. This consists of certain Investment Products on the Focus List or Approved List recommended for investment at a given time based in part on then-existing tactical opportunities in the market.



## PERFORMANCE REVIEW: PERFORMANCE STATISTICS BEFORE FEE\*

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

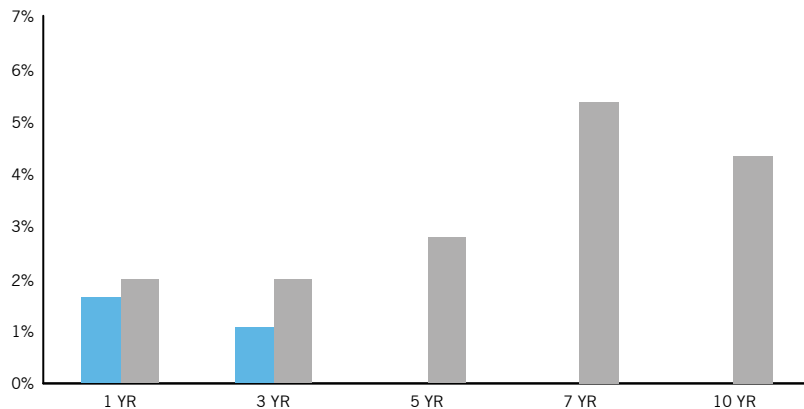
As of March 21, 2016

The performance data designated as “Proposal” below on this page and on each of the following pages of this proposal is intended to model what the return of a portfolio would have been had you been invested in the investment products recommended in this proposal, in the percentages recommended, over the time periods shown. These returns are hypothetical returns based on a simulated account (not an actual account). You would not necessarily have obtained these performance results if you had held this portfolio for the periods indicated. Actual performance results of accounts vary due to factors such as timing of contributions and withdrawals, and rebalancing schedules. Also, fees would apply to, and reduce the performance of, investment products included in this hypothetical portfolio. **The selection of investment products in this proposal reflects the benefit of hindsight based on historical rates of return. This performance is presented for illustrative purposes only.**

With respect to third-party separately managed accounts (“SMAs”), the performance information is based on other accounts of the investment Sub-Manager that operated with substantially similar investment objectives and policies during the time periods indicated. With respect to affiliated investment products, the performance information is that of the affiliated investment product in a Consulting Group investment advisory program other than Select UMA. The data designated as “Proposal Benchmark” is derived from the stated benchmark of each investment product included in the weightings set forth in our recommendation. As noted above, past performance does not guarantee or predict future results.

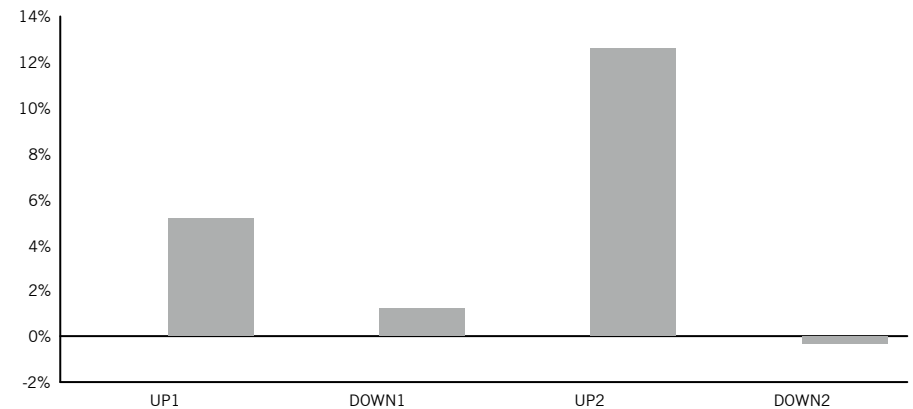
**It is important to note that the performance set forth below does not take into account the fees that would be charged to the account. As illustrated in the Performance Disclosures at the end of this proposal, if an account had been in existence for the time periods shown, its performance would be lower than that shown by an amount that is directly proportionate to the fee charged. Please see the Fee Schedule for an illustration of the impact of fees on account performance.**

### ANNUALIZED RETURNS



As of 09/30/2015	1 YEAR	3 YEAR	5 YEAR	7 YEAR	10 YEAR
Eaton Vance Ladder Corp Sht	1.63%	1.05%	NA	NA	NA
BC Corp 1-5 Yr	1.97%	1.96%	2.79%	5.36%	4.34%

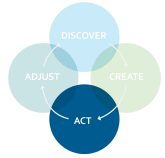
### ANALYSIS OF UP AND DOWN MARKETS\*\*



	UP1 06/10-06/11	UP2 09/11-09/15	DOWN1 03/10-06/10	DOWN2 06/11-09/11
Eaton Vance Ladder Corp Sht	NA	NA	NA	NA
BC Corp 1-5 Yr	5.14%	12.67%	1.27%	-0.33%

\* Please see the important performance disclosures located at the end of this proposal. Returns, other performance figures and any risk or other statistics based on these performance figures do not reflect the payment of any separate account management fees.

\*\* See discussion of “Up1”, “Down1”, “Up2”, “Down2”, “Standard Deviation”, “Risk-Return Analysis” and “Proposal Benchmark” in the Glossary of Terms and Disclosures at the end of this proposal.



# PERFORMANCE REVIEW: RISK/RETURN ANALYSIS BEFORE FEES\*

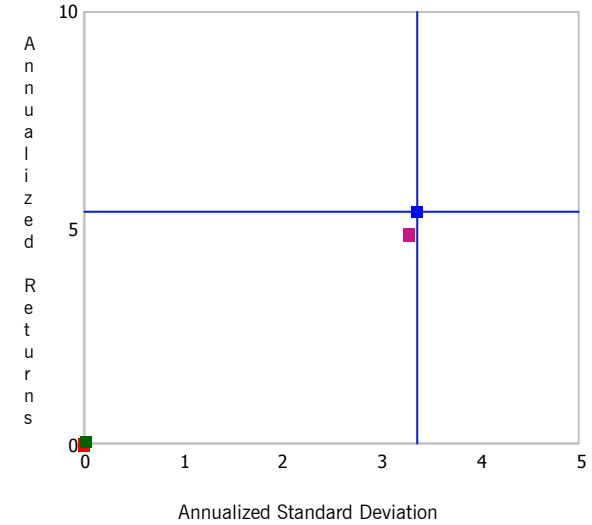
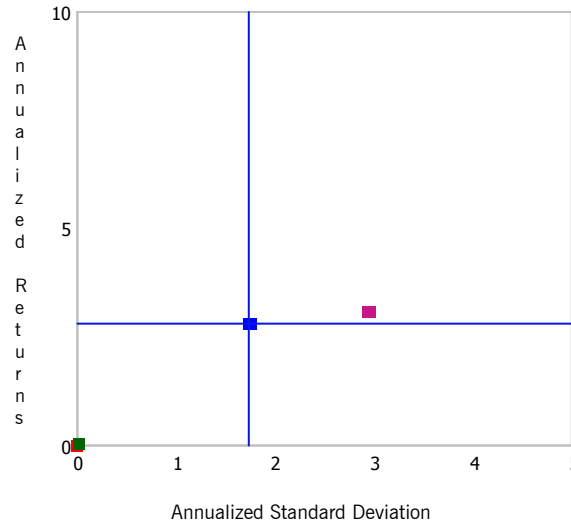
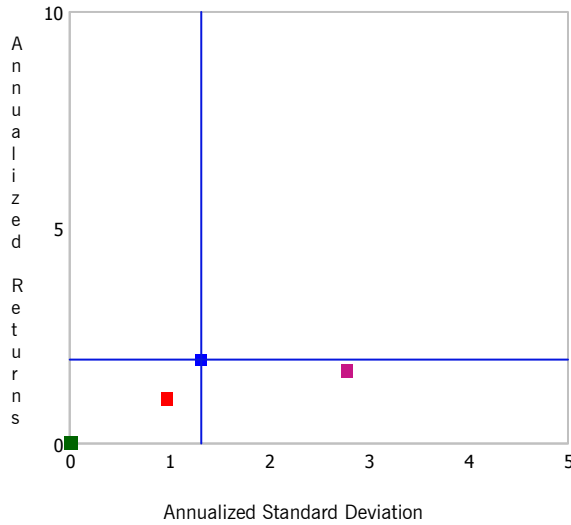
Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

## 3-YEAR RISK/RETURN ANALYSIS BEFORE FEES\*\*

## 5-YEAR RISK/RETURN ANALYSIS BEFORE FEES\*\*

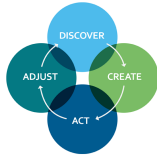
## 7-YEAR RISK/RETURN ANALYSIS BEFORE FEES\*\*



As of 09/30/2015	3 Year		5 Year		7 Year	
	Rate of Return	Standard Deviation	Rate of Return	Standard Deviation	Rate of Return	Standard Deviation
■ Eaton Vance Ladder Corp Sht	1.05 %	0.98 %	NA	NA	NA	NA
■ BC Corp 1-5 Yr	1.96 %	1.32 %	2.79 %	1.74 %	5.36 %	3.36 %
■ 90-DAY TREASURY BILLS	0.04 %	0.01 %	0.06 %	0.02 %	0.08 %	0.03 %
■ LB AGG BOND INDEX	1.71 %	2.78 %	3.09 %	2.95 %	4.84 %	3.28 %

\* Please see the important performance disclosures located at the end of this proposal. Returns, other performance figures and any risk or other statistics based on these performance figures do not reflect the payment of any separate account management fees.

\*\* See discussion of "Up1", "Down1", "Up2", "Down2", "Standard Deviation", "Risk-Return Analysis" and "Proposal Benchmark" in the Glossary of Terms and Disclosures at the end of this proposal.



## SUMMARY OF SERVICES

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

After your investment products have been selected, your Financial Advisor will periodically monitor your account's performance. Consulting Group believes that an investment management program does not end with the initial selection of a strategy. Periodic evaluation and monitoring of your account and your long-term investment objectives help you to make periodic adjustments. Morgan Stanley will provide you with periodic reports showing your account performance. Many Financial Advisors invite clients to review these reports with them either in one-on-one meetings or over the telephone. Should your financial objectives change, please notify your Financial Advisor so they can reassess your overall investment strategy and suggest appropriate adjustments. The following services will be provided to you as part of the Select UMA program fee.

### Consulting Services

- Define investment objectives and risk tolerance levels
- Develop customized asset allocation strategies
- Recommend appropriate investment products
- Review performance against benchmarks
- Provide manager analysis reports and periodic economic commentary

### Overlay Manager Services

- Portfolio Implementation
- Trade Execution
- Trading of the equity manager portfolios, ETFs and mutual funds
- Coordination with fixed income managers
- Automated Rebalancing
- Auto-reallocation
- Cash Management
- Restriction Management
- Periodic Withdrawals

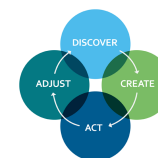
### Communications (as required by client)

- Comprehensive periodic reports summarizing performance and portfolio activity
- Monthly account statements
- Trade confirmation of every transaction
- Periodic review of investment objectives

### Account Services

- Custody services and safekeeping of securities
- Automatic sweep of cash balances

There is a minimum annual Advisory fee (calculated quarterly) for each Consulting Group account. This minimum is the lesser of 2% or \$250 per year. This minimum will not apply to any account that (when added to any other Consulting Group accounts with which it is related for billing purposes) has a total of \$500,000 or more in assets as of the end of the previous billing quarter.



## SUMMARY OF FEE SCHEDULE

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

Advisory Fee	
Asset Value	Annual Fee
0 - 99,999	0.60%
100,000 - 249,999	0.60%
250,000 - 499,999	0.60%
500,000 - 999,999	0.50%
1,000,000 - 1,999,999	0.50%
2,000,000 - 4,999,999	0.40%
5,000,000 - 9,999,999	0.40%
10,000,000 - 24,999,999	0.30%
25,000,000 - 49,999,999	0.30%
50,000,000 - 99,999,999	0.25%
Amount over 100,000,000	0.25%

Estimated Total Client Fee Rate <sup>1</sup>	
Advisory Fee	0.60%
Sub-Manager Fee	0.16%
Overlay Manager Fee <sup>2</sup>	0.07%
<b>Total Effective Rate</b>	<b>0.83%</b>

<sup>1</sup> The Estimated Total Client Fee Rate is based on the account asset value shown in the Your Investment Profile section, and includes Advisory, Sub-Manager and Overlay Manager fees, and the asset allocation percentages shown in the Your Proposed Portfolio section above. The actual Total Client Fee Rate may vary, depending on the account asset value and asset allocation percentages. From time to time, certain additional fees and charges may apply. For more details, see the Select UMA ADV brochure, available from your Financial Advisor or at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV).

<sup>2</sup> Fee compensates the Overlay Manager (which is part of Morgan Stanley) for portfolio rebalancing and other administrative functions.

Please note that performance illustrations used in this proposal do not include the impact of the fees set forth above. These expenses will reduce the actual performance of your account. Because the fees are deducted quarterly, the fees will have a compounding effect on performance and can be material. For example, for an account with an annual fee of 2%, if the gross performance is 10%, the compounding effect of the fees will result in a new annual compound rate of return of approximately 7.81%. After a three-year period with an initial investment of \$100,000, the total value of the client's portfolio would be approximately \$133,100 without the fee and \$125,307 with the fee.

Financial Advisors receive as compensation a percentage of the total Advisory fee you pay. This percentage is the same whether you choose to invest based on one proposal, a blend of several, or your own independent allocation approach, but obviously the dollar amount received will vary based on the effective rate and the amount you choose to allocate to a particular Investment Product. For more details, please refer to the discussion of fees in the Select UMA ADV brochure and your Select UMA Agreement.

Proposed Investment Products (Sub-Manager Fee for SMA Only)				
Asset Class	Investment Product	Investment Product Type *	% of Portfolio	Sub-Manager Fee % (SMA Only)
Short Term Fixed Income	Eaton Vance Ladder Corp Sht	SMA	100.00%	0.16%

\* Manager/Fund Names are Followed by an "SMA" or "MF" or "ETF" represents a separately managed account (or Sub-Manager), a mutual fund, and an exchange-traded funds, respectively.

There is a minimum annual Advisory fee (calculated quarterly) for each Consulting Group account. This minimum is the lesser of 2% or \$250 per year. This minimum will not apply to any account that (when added to any other Consulting Group accounts with which it is related for billing purposes) has a total of \$500,000 or more in assets as of the end of the previous billing quarter.

## GLOSSARY OF TERMS

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

**90-day Treasury Bill Index:** An unweighted average of weekly auction offering rates of 90-day Treasury bills. Treasury bills are backed by the full faith and credit of the U.S. government.

**Barclays Capital Aggregate Index:** The U.S. Aggregate Index covers the dollar-denominated investment-grade fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS pass-through securities, asset-backed securities, and commercial mortgage based securities. These major sectors are subdivided into more specific subindices that are calculated and published on an ongoing basis. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. This index is rebalanced monthly by market capitalization.

**Custom Allocation:** Indicates that you have selected the “custom” version of the asset allocation model and have created a customized asset allocation instead of utilizing a model pre-defined by us.

**Down1:** A portfolio's performance during the most recent “down” cycle in a market. The most recent “down” cycle consists of the most recent quarter in which market performance (as measured by the benchmark) was less than zero. However, if the most recent such quarter was the last in a series of successive quarters in which market performance was less than zero, the most recent “down” cycle consists of that series of successive quarters. (For example, if the last “down” quarter was the fifth successive “down” quarter, then the most recent “down” cycle is the period consisting of those five successive quarters.) The length of the Down1 period may be different from that of the Up1, Up2 and Down2 periods.

**Down2:** A portfolio's performance during the second most recent “down” cycle in a market. See the definition of “Down1” for how we determine “down” cycles.

**FA Discretionary Program:** The client has elected to give discretion of the Select UMA account to the Financial Advisor. The FA has ability to select the investment products within the account without the consent of the client. Clients receive a playback of any changes to their account.

**Firm Discretionary Program:** The client has elected to give discretion of the Select UMA account to Consulting Group. Consulting Group will make the asset allocation and investment product decisions on behalf of the client.

**MSCI EAFE Index (Net):** The MSCI EAFE Index (Europe, Australasia, Far East) (net) is a free float adjusted market capitalization index that is designed to measure equity performance of developed markets, excluding the U.S. & Canada. The MSCI EAFE Index consists of the following 22 developed market country indices: Australia, Austria, Belgium,

Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom (as of May 2011). Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**Non-Discretionary Program:** The client requires the FA to consult with them before implementing any changes to their account.

**Proposal Benchmark:** This is a blend of the individual investment products' benchmarks in an allocation equal to the proposal. For example, if the proposal has a 50% US Large Cap Core Equity and a 50% US Core Fixed Income allocation, the Proposal Benchmark would be 50% S&P 500 Index + 50% BC Aggregate Bond Index. The calculation of this blend assumes monthly rebalancing of the weighting of individual product benchmarks back to the target allocation and is likely to differ from actual practice in client accounts. For additional information regarding your Proposal Benchmark, please contact your Morgan Stanley Financial Advisor.

**Risk-Return Analysis:** On the risk-return graphs, also known as scattergrams or scatterplots, each point on the analysis represents both the return and risk of the proposal and benchmarks. Risk, defined as standard deviation, is measured along the x-axis, while return is measured along the y-axis. The vertical and horizontal lines drawn through the proposal or benchmark divide the graph into four quadrants. The northwest quadrant is sometimes regarded as the most desirable quadrant since any point falling there has both return exceeding the benchmark and less risk than the benchmark. In general, anything plotted to the northwest of another point on the graph is considered to have outperformed the other on a risk-adjusted basis. Historical risk-adjusted performance is not a predictor of future risk-adjusted performance.

**S&P 500 Index:** Widely regarded as the best single gauge of the U.S. equities market, this world-renowned index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, it is also an ideal proxy for the total market.

**Standard Deviation:** The statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. The standard deviation of performance can be calculated for each security and for the portfolio as a whole. The greater the degree of dispersion, the greater the risk.

**Strategic Asset Allocation:** A blend of asset classes that we recommend in the Select UMA

## GLOSSARY OF TERMS

---

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

---

program to seek to maximize returns in the long run for a given risk tolerance level.

**Tactical Asset Allocation:** A blend of asset classes that we recommend in the Select UMA program to seek to maximize returns over a shorter period (generally 12 months or so) for a given risk tolerance.

**Up1:** A portfolio's performance during the most recent "up" cycle in a market. The most recent "up" cycle consists of the most recent quarter in which market performance (as measured by the benchmark) was greater than zero. However, if the most recent such quarter was the last in a series of successive quarters in which market performance was greater than zero, the most recent "up" cycle consists of that series of successive quarters. (For example, if the last "up" quarter was the fifth successive "up" quarter, then the most recent "up" cycle is the period consisting of those five successive quarters.) The length of the Up1 period may be different from that of the Up2, Down1 and Down2 periods.

**Up2:** A portfolio's performance during the second most recent "up" cycle in a market. See the definition of "Up1" for how we determine "up" cycles.



## IMPORTANT DISCLOSURES

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

Although the statements of fact and data in this proposal have been obtained from, and are based upon, sources that we believe to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions included in this material constitute our judgment as of the date of this material and are subject to change without notice. This material is provided for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. The information shown is provided by the Consulting Group and Sub-Managers and, where provided by Sub-Managers, is not independently verified by us.

**Performance.** For those Select UMA Sub-Managers that participate in the Morgan Stanley Fiduciary Services program, and beginning with the first full quarter after the acceptance by the Sub-Manager of the first Fiduciary Services client in this style, the composite performance figures represent the Sub-Manager's actual Morgan Stanley Fiduciary Services performance in this style (for all fee paying accounts with no investment restrictions), and are calculated by Morgan Stanley. Performance figures for Sub-Managers that do not participate in the Fiduciary Services program (and for Sub-Managers that do participate in the Fiduciary Services program, performance figures for periods prior to the Sub-Managers participation) are for a composite compiled by the Sub-Manager, and are calculated by the Sub-Manager. Please note that some of the performance information for the Sub-Manager depicts the performance of accounts employing similar, but not the actual, investment strategies that will be used for Select UMA clients. Because the accounts contained in the Sub-Manager's composite were not managed contemporaneously with the Select UMA accounts, may be different in size than a typical Select UMA account or may have been managed with a view toward different client needs and considerations, the specific securities held and rates of return achieved for Select UMA accounts may differ from those of the Sub-Manager's composite. Also, the Sub-Manager's composite may have included IPO investments, while Select UMA accounts do not invest in IPOs. Actual results may vary.

Since Sub-Managers may use different methods of selecting accounts to be included in their performance composites and for calculating performance, returns of different Sub-Managers may not be comparable.

Each Sub-Manager, as investment adviser to the client, will exercise discretion to select securities for the client's account by (i) delivering a model portfolio to the Overlay Manager (which is part of Morgan Stanley), which the Overlay Manager will implement (subject to any client instructions accepted by the Overlay Manager); or (ii) (in the case of an executing Sub-Manager) implementing its investment decisions directly.

The investment results depicted herein represent historical gross performance with no deduction for investment management fees or any applicable insurance or annuity charges. Actual returns will be reduced by expenses, including management fees. Please see the

Select UMA ADV brochure for a full disclosure of the fee schedule. Because the fees are deducted quarterly, the fees will have a compounding effect on performance and can be material. For example, on an account with an initial value of \$100,000 and a 2% annual fee, if the gross performance is 10% per year over a three-year period, the compounding effect of the fees will result in a net compound rate of return of approximately 7.81% per year over a three-year period, and the total value of the client's portfolio at the end of the three-year period would be approximately \$133,100 without the fee and \$125,307 with the fee.

Performance results include all cash and cash equivalents, are time weighted, annualized for time periods greater than one year and include realized and unrealized capital gains and losses and reinvestment of dividends, interest and income.

As a result of recent market activity, current performance may vary from the figures shown. Please contact your Financial Advisor for up-to-date performance information. Past performance is not a guarantee of future results. Diversification does not ensure a profit or protect against loss.

**General Information. All Funds are sold by prospectus, which contains more complete information about the fund. Please contact your Financial Advisor for copies. Please read the prospectus and consider the fund's objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the fund.**

Return and principal value of investments will fluctuate and, when redeemed, may be worth more or less than their original cost. Investments are not FDIC insured or bank guaranteed, and investors may lose money. There is no guarantee that past performance or information relating to return, volatility, style reliability and other attributes will be predictive of future results. The value of an investor's shares of any fund will fluctuate and, when redeemed, may be worth more or less than the investor's cost.

If the client selects a "custom" version of the model for the client's unified managed account, unless the client has elected Financial Advisor Discretion, the client (not Morgan Stanley) will determine the initial asset allocation for the model and will be responsible thereafter for any adjustments to the asset allocation of the model. The client's Financial Advisor may utilize recommendations of the our Global Investment Committee ("GIC") as a resource in assisting the client in defining a custom model. If the Financial Advisor does utilize GIC recommendations in connection with defining a custom model, there is no guarantee that any model defined will in fact mirror or track GIC recommendations.

Individual retirement accounts and other retirement plan clients that participate in Morgan Stanley advisory programs may be prohibited from purchasing investment products managed

## IMPORTANT DISCLOSURES

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

by affiliates of Morgan Stanley.

Morgan Stanley Smith Barney LLC, its affiliates, and its employees do not provide tax or legal advice. Individuals should seek advice based on their particular circumstances from independent tax and legal advisors. The performance of tax-managed accounts is likely to vary from that of non taxed managed accounts.

To obtain Tax Management Services, a client must complete the Tax Management Form, and deliver the signed form to us. For more information on Tax Management Services, including its features and limitations, please ask your Financial Advisor for the Tax Management Form. Review the form carefully with your tax advisor. Tax Management Services (a) apply only to equity investments in separate account sleeves of client accounts, as well as in transactions in certain exchange-traded funds ("ETFs") and mutual funds; (b) are not available for all accounts or clients; and (c) may adversely impact account performance. Tax Management Services do not constitute tax advice or a complete tax-sensitive investment management program. There is no guarantee that Tax Management Services will produce the desired tax results.

### Asset Class and Security Type Risks:

The investment management services of Morgan Stanley Smith Barney LLC and investment vehicles managed by Morgan Stanley Smith Barney LLC or its affiliates are not guaranteed and could result in the loss of value to your account. You should note that investing in financial instruments carries with it the possibility of losses and that a focus on above-market returns exposes the portfolio to above-average risk. Performance aspirations are not guaranteed and are subject to market conditions. High volatility investments may be subject to sudden and large falls in value, and there could be a large loss on realization which could be equal to the amount invested.

Asset allocation, diversification and rebalancing do not assure a profit or protect against loss. There may be a potential tax implication with a rebalancing strategy. Please consult your tax advisor before implementing such a strategy.

Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns include the reinvestment of all dividends, but do not reflect the payment of transaction costs, advisory fees or expenses that are associated with an investment. The indices selected by Morgan Stanley to measure performance are representative of broad asset classes. Morgan Stanley retains the right to change representative indices at any time.

Performance of indices may be more or less volatile than any investment product. The risk of

loss in value of a specific investment is not the same as the risk of loss in a broad market index. Therefore, the historical returns of an index will not be the same as the historical returns of a particular investment a client selects. **Past performance does not guarantee future results.**

**Non diversification** is attributed to a portfolio that holds a concentrated or limited number of securities, a decline in the value of these investments would cause the portfolio's overall value to decline to a greater degree than a less concentrated portfolio.

Portfolios that invest a large percentage of assets in only **one industry sector** (or in only a few sectors) are more vulnerable to price fluctuation than those that diversify among a broad range of sectors.

**Value and growth investing** also carry risks. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. 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.

**Equity securities'** prices may fluctuate in response to specific situations for each company, industry, market conditions and general economic environment. Companies paying dividends can reduce or cut payouts at any time.

**International securities** may carry additional risks, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes and differences in financial and accounting standards. International investing may not be for everyone. These risks may be magnified in **emerging markets**.

**Small- and mid- capitalization** companies may lack the financial resources, product diversification and competitive strengths of larger companies. The securities of small capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.

**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 allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.

## IMPORTANT DISCLOSURES

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

Interest in **municipal bonds** is generally exempt from federal income tax. However, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one's state of residence and, local tax-exemption typically applies if securities are issued within one's city of residence.

**Ultra-short bond** funds generally invest in fixed income securities with very short maturities, typically less than one year. They are not money market funds. While money market funds attempt to maintain a stable net asset value, an ultra-short bond fund's net asset value will fluctuate, which may result in the loss of the principal amount invested. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in **high-yield bonds**. High yield bonds should comprise only a limited portion of a balanced portfolio.

**Real estate investment** values can fall due to environmental, economic or other reasons, and changes in interest rates can negatively impact the performance of real estate companies.

The risks of investing in **Real Estate Investment Trusts (REITs)** 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.

**Derivatives**, in general, involve special risks and costs that may result in losses. The successful use of derivatives requires sophisticated management, in order to manage and analyze derivatives transactions. The prices of derivatives may move in unexpected ways, especially in abnormal market conditions. In addition, correlation between the particular derivative and an asset or liability of the manager may not be what the investment manager expected. Some derivatives are "leveraged" and therefore may magnify or otherwise increase investment losses. Other risks include the potential inability to terminate or sell derivative positions, as a result of counterparty failure to settle or other reasons.

**Mortgage-backed securities ("MBS")** which include collateralized mortgage obligations ("CMOs"), also referred to as real estate mortgage investment conduits ("REMICs"), may not be suitable for all investors. There is the possibility of early return of principal due to mortgage prepayments, which can reduce expected yield and result in reinvestment risk. Conversely, return of principal may be slower than initial prepayment speed assumptions, extending the average life of the security up to its listed maturity date (also referred to as

extension risk). Additionally, the underlying collateral supporting MBS may default on principal and interest payments. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements.

**Commodities** markets may fluctuate widely based on a variety of factors including, but not limited to, changes in supply and demand relationships; governmental programs and policies; national and international political and economic events, war and terrorist events; changes in interest and exchange rates; trading activities in commodities and related contracts; pestilence, technological change and weather; and the price volatility of a commodity.

**Real Assets** may include precious metals, commodities, oil and gas interests and timber interests. The prices of real assets tend to fluctuate widely and in an unpredictable manner. Real assets may be affected by several factors, including global supply and demand, investors' expectations with respect to the rate of inflation, currency exchange rates, interest rates, investment and trading activities of hedge funds and commodity funds, and global or regional political, economic or financial events and situations.

**Alternative/hedged strategies** may use various investment strategies and techniques for both hedging and more speculative purposes such as short selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. Alternative/hedged strategies are not appropriate for all investors. A short sales strategy includes the risk of loss due to an increase in the market value of borrowed securities. Such a strategy may be combined with purchasing long positions in an attempt to improve portfolio performance. A short sales strategy may result in greater losses or lower positive returns than if the portfolio held only long positions, and the portfolio's loss on a short sale is potentially unlimited. The use of leverage can magnify the impact of adverse issuer, political, regulatory, market, or economic developments on a company. A decrease in the credit quality of a highly leveraged company can lead to a significant decrease in the value of the company's securities. In a liquidation or bankruptcy, a company's creditors take precedence over the company's stockholders.

**Alternative Strategy Mutual Funds and ETFs** that pursue complex or alternative investment strategies or returns may employ various investment strategies and techniques for both hedging and more speculative purposes such as short selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. Alternative investment strategies are not suitable for all investors.

You should also keep in mind that while mutual funds and ETFs may at times utilize

## IMPORTANT DISCLOSURES

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

non-traditional investment options and strategies, they should not be equated with unregistered privately offered alternative investments. Because of regulatory limitations, mutual funds and ETFs that seek alternative-like investment exposure must utilize a more limited investment universe. As a result, investment returns and portfolio characteristics of alternative mutual funds may vary from traditional hedge funds pursuing similar investment objectives. They are also more likely to have relatively higher correlation with traditional market returns than privately offered alternative investments. Moreover, traditional hedge funds have limited liquidity with long lock-up periods allowing them to pursue investment strategies without having to factor in the need to meet client redemptions. On the other hand, mutual funds typically must meet daily client redemptions. This differing liquidity profile can have a material impact on the investment returns generated by a mutual fund pursuing an alternative investing strategy compared with a traditional hedge fund pursuing the same strategy.

Non-traditional investment options and strategies are often employed by a portfolio manager to further a fund's or ETFs investment objective and to help offset market risks. However, these features may be complex, making it more difficult to understand the fund's or ETF's essential characteristics and risks, and how it will perform in different market environments and over various periods of time. They may also expose the fund or ETF to increased volatility and unanticipated risks particularly when used in complex combinations and/or accompanied by the use of borrowing or "leverage".

**Master Limited Partnership ("MLPs")**, involve risks that differ from an investment in common stock. MLPs are controlled by their general partners, which generally have conflicts of interest and limited fiduciary duties to the MLP, which may permit the general partner to favor its own interests over the MLPs. The potential return of MLPs depends largely on the MLPs being treated as partnerships for federal income tax purposes. As a partnership, an MLP has no federal income tax liability at the entity level. Therefore, treatment of one or more MLPs as a corporation for federal income tax purposes could affect the portfolio's ability to meet its investment objective and would reduce the amount of cash available to pay or distribute to you. Legislative, judicial, or administrative changes and differing interpretations, possibly on a retroactive basis, could negatively impact the value of an investment in MLPs and therefore the value of your investment.

For the reasons outlined below, where an otherwise tax exempt account (such as an IRA (as defined below), qualified retirement plan, charitable organization, or other tax exempt or deferred account) is invested in a pass through entity (such as a MLP), the income from such entity may be subject to taxation, and additional tax filings may be required. Further, the tax advantages associated with these investments are generally not realized when held in a tax-deferred or tax exempt account. Please consult your own tax advisor, and consider any potential tax liability that may result from such an investment in an otherwise tax

exempt account.

Earnings generated inside most qualified retirement plans, including defined benefit pension plans, defined contribution plans and individual retirement accounts ("IRAs"), are generally exempt from federal income taxes, however, certain investments made by such retirement plans may generate taxable income referred to as "unrelated business taxable income" ("UBTI") that is subject to taxation at trust rates. Generally, passive types of income (when not financed with debt) such as dividends, interest, annuities, royalties, most rents from real property, and gains from the sale, exchange or other disposition of property (other than inventory or property held for sale in the ordinary course of a trade or business) do not generate UBTI. Active income associated with operating a trade or business, however, may constitute UBTI to an otherwise tax exempt investor such as a qualified retirement plan. In addition, UBTI may also be received as part of an investor's allocable share of active income generated by a pass-through entity, such as partnerships (including limited partnerships and MLPs), certain trusts, subchapter S corporations, and limited liability companies that are treated as disregarded entities, partnerships, or subchapter S corporations for federal income tax purposes.

If more than \$1,000 of unrelated trade or business gross income is generated in a tax year, the retirement plan's custodian or fiduciary (on behalf of the retirement plan) must file an Exempt Organization Business Income Tax Return, Form 990-T. With respect to an individual investing through an IRA, in calculating the threshold amount and the retirement plan's UBTI for the year, each IRA is generally treated as a separate taxpayer, even if the same individual is the holder of multiple IRAs.

The passive activity loss limitation rules also apply for purposes of calculating a retirement plan's UBTI, potentially limiting the amount of losses that can be used to offset the retirement plan's income from an unrelated trade or business each year. It should be noted that these rules are applied to publicly traded partnerships, such as MLPs, on an entity-by-entity basis, meaning that the passive activity losses generated by one MLP generally can only be used to offset the passive activity income (including unrelated traded or business income) from the same MLP. The passive activity losses generated by one MLP generally cannot be used to offset income from another MLP (or any other source). The disallowed losses are suspended and carried forwarded to be used in future years to offset income generated by that same MLP. However, once the retirement plan disposes of its entire interest in the MLP to an unrelated party, the suspended losses can generally be used to offset any unrelated trade or business income generated inside the retirement plan (including recapture income generated on the sale of the MLP interest, as well as income generated by other MLPs).

In calculating the tax, trust tax rates are applied to the retirement plan's UBTI (i.e.,

## IMPORTANT DISCLOSURES

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

unrelated trade or business gross income less any applicable deductions, including the \$1,000 specific deduction). In addition to the passive loss limitation rules noted above, other limitations may apply to the retirement plan's potential tax deductions. In order to file Form 990-T, the retirement plan is required to obtain an Employer Identification Number ("EIN") because the plan (and not the plan owner or fiduciary) owes the tax. State and local income taxes may also apply. Accordingly, retirement plan investors (and their fiduciaries) should consult their tax and legal advisors regarding the federal, state, and local income tax implications of their investments.

Similar rules apply to other tax-exempt organizations (e.g., charitable and religious organizations), except that certain differences may apply. For instance, the UBTI of most other tax-exempt organizations is taxable at corporate rates, unless the organization is one that would be taxed as a trust if it were not tax-exempt in which case its UBTI is taxable at trust rates. Also, the passive activity loss limitation rules do not apply to all tax-exempt organizations. Tax-exempt investors should consult their tax and legal advisors regarding the federal, state, and local income tax implications of their investments.

The current yield of **preferred securities** is calculated by multiplying the coupon by par value divided by the market price. The majority of \$25 and \$1000 par preferred securities are "callable" meaning that the issuer may retire the securities at specific prices and dates prior to maturity. Interest/dividend payments on certain preferred issues may be deferred by the issuer for periods of up to 5 to 10 years, depending on the particular issue. The investor would still have income tax liability even though payments would not have been received. Price quoted is per \$25 or \$1,000 share, unless otherwise specified. The initial rate on a floating rate or index-linked preferred security may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in the floating/linked index. However, there can be no assurance that these increases will occur.

**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. You should be aware that the market value of convertible bonds may not correspond volatility and risk of loss compared to traditional bond directly to increases or decreases in the underlying stock.

Many **floating rate securities** specify rate minimums (floors) and maximums (caps). Floaters are not protected against interest rate risk. In a declining interest rate environment, floaters will not appreciate as much as fixed-rate bonds. A decline in the applicable benchmark rate will result in a lower interest payment, negatively affecting the regular income stream from

the floater.

**Closed-end funds**, unlike open-end funds, are not continuously offered. There is a onetime public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value (NAV) is total assets less total liabilities divided by the number of shares outstanding. At the time of sale, your shares may have a market price that is above or below NAV. There is no assurance that the fund will achieve its investment objective. The fund is subject to investment risks, including possible loss of principal invested.

An investment in an **exchange-traded fund** involves risks similar to those of investing in a broadly based portfolio of equity securities traded on exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock prices. The investment return and principal value of ETF investments will fluctuate, so that an investor's ETF shares, if or when sold, may be worth more or less than the original cost.

**An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.**

**All mutual funds/exchange-traded funds are sold by prospectus, which contains more complete information about the fund. Please contact your Financial Advisor for copies. Please read the prospectus and consider the fund's objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the fund.**

Non 1940 Investment Company Act registered funds not currently held by recipient must be preceded or accompanied by the prospectus.

Any securities referred to in this material may not have been registered under the U.S. Securities Act of 1933, as amended, and, if not, may not be offered or sold absent an exemption therefrom. Recipients are required to comply with any legal or contractual restrictions on their purchase, holding, sale, exercise of rights or performance of obligations under any security/instrument or otherwise applicable to any transaction.

The program account will be charged an asset-based wrap fee every quarter ("the Fee"). In general, the Fee covers investment advisory services, the execution of transactions through Morgan Stanley Smith Barney LLC or its affiliates, custody of the client's assets with Morgan Stanley Smith Barney LLC and its affiliates, and reporting. In addition to the Fee, you will

## IMPORTANT DISCLOSURES

---

Proposal prepared for CA ASSOCIATION FOR BILINGUAL EDUCATION

March 21, 2016

---

pay the fees and expenses of any funds in which your account is invested. Fund fees and expenses are charged directly to the pool of assets the fund invests in and are reflected in each fund's share price. You understand that these fees and expenses are an additional cost to you and will not be included in the Fee amount in your account statements. Please see the applicable program disclosure document for more information including a description of the fee schedule.

© 2015 Morgan Stanley Smith Barney LLC. Member SIPC. Consulting Group is a business of Morgan Stanley Smith Barney LLC.