

Morgan Stanley

Credit Suisse 2014 Financials Conference

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Agenda

1 Investment Management within Morgan Stanley

2 The Transformation of Investment Management

3 Investment Management Going Forward

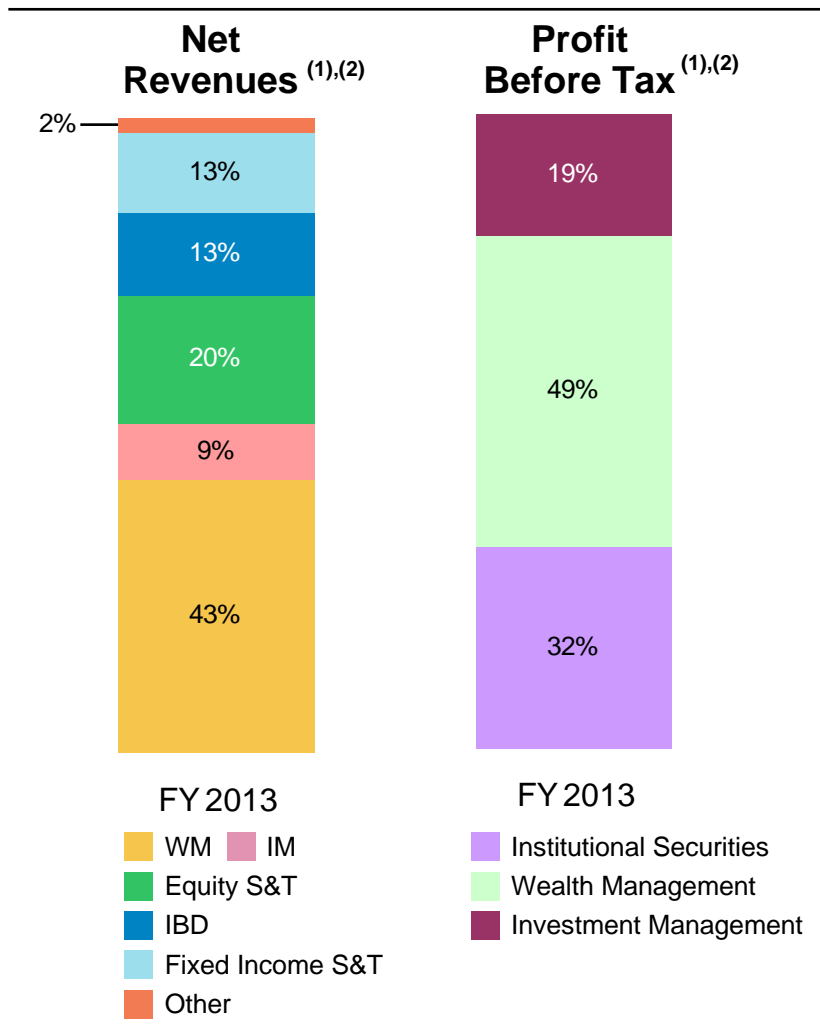
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Strategic Moves Enhance Business Outlook



Key Drivers

- **Investment Management**
 - Strong investment performance in Merchant Banking and Real Estate Investing funds
 - Contribution from Traditional Asset Management increasing, driven by product enhancements, higher markets and operating leverage
- **Wealth Management**
 - Revenue and earnings consistency
 - Well positioned for growth, benefitting from higher deposits
 - At the end of 4Q13, increased margin target to 22-25% by 4Q15
- **Institutional Securities**
 - Cohesive set of products across divisions
 - Global leader in Investment Banking and Institutional Equities
 - Executing on plan to drive ROE > Cost of Equity in Fixed Income and Commodities
- **Strategic partnership with MUFG**
- **Durable funding, strong capital and liquidity**

How Morgan Stanley Investment Management Contributes to the Firm

Morgan Stanley Investment Management is an important contributor to Morgan Stanley with a number of strategic benefits

- **Investment Management provides a steady and growing revenue stream that has become more predictable as a result of the work done over the last several years**
- **Investment Management's ROE is attractive and growing**
 - High margins
 - Declining capital
- **Investment Management increases the Firm's connectivity with clients**
 - Institutional investors (e.g. pensions and endowments)
 - High net worth
 - Investment banking / Corporate
 - MUFG

Where We Fit in the Asset Management World

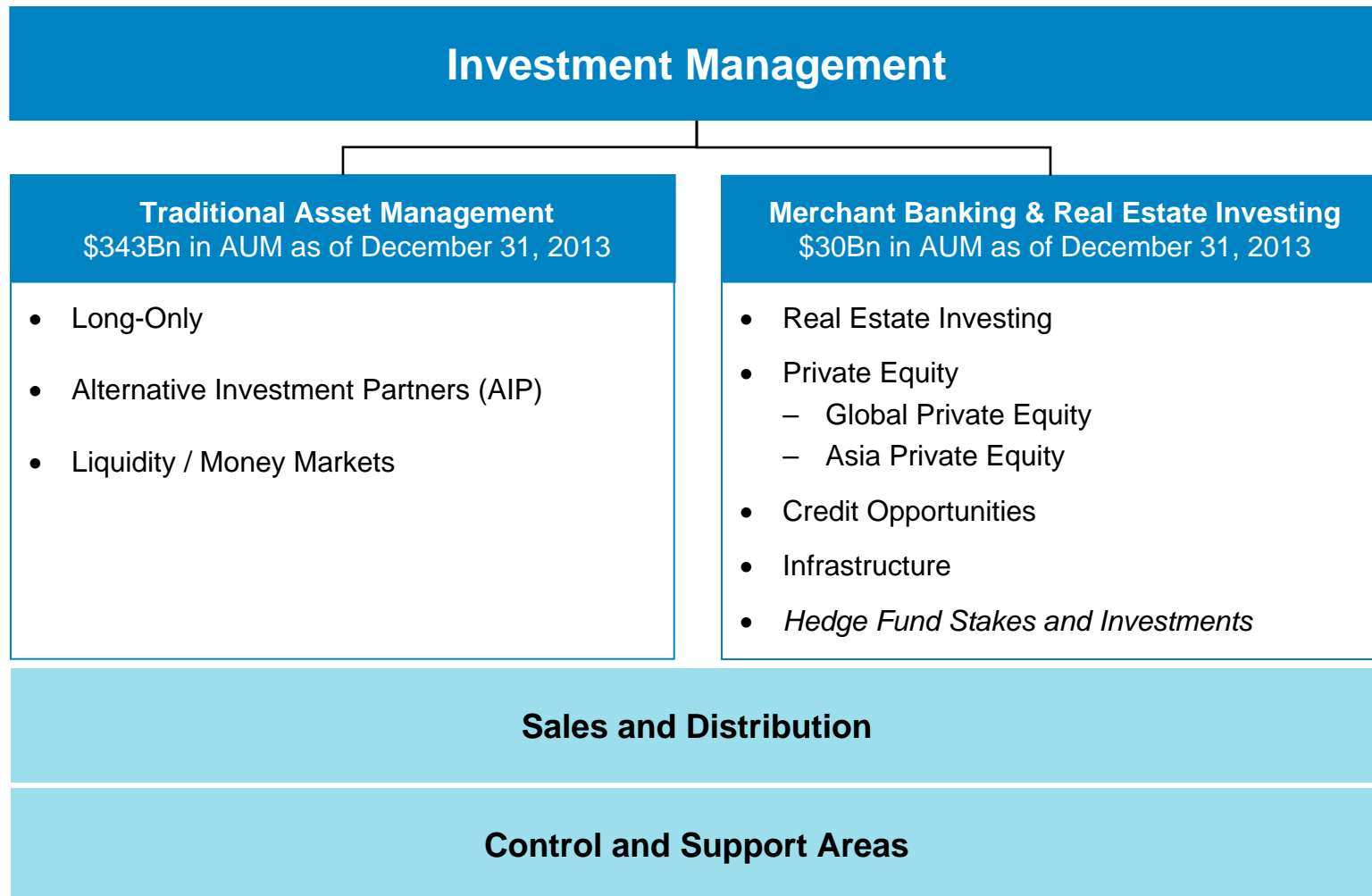
Top 10 Asset Managers by Global AUM as of December 2012⁽¹⁾⁽²⁾

Firm	2012 AUM (\$Bn)	2009 – 2012 AUM Growth (%)
1 BlackRock	\$3,792	13%
2 Allianz Group	2,448	45%
3 Vanguard Group	2,215	70%
4 State Street Global	2,086	9%
5 Fidelity Investments	1,888	41%
6 AXA Group	1,475	22%
7 J.P. Morgan Chase	1,431	15%
8 Bank of New York Mellon	1,386	26%
9 BNP Paribas	1,304	N/A
10 Deutsche Bank	1,247	N/A
Morgan Stanley Investment Management	\$338	28%

(1) Pensions and Investments, November 2013.

(2) Average excludes BNP Paribas and Deutsche Bank as 2009 level AUM is not available.

Investment Management – Business and Support Lines



Broad Range of Clients and Types

Institutional

- Corporations
- Endowments and foundations
- Insurance companies
- Public plans (governments, local authorities, central banks, sovereign wealth funds, etc.)
- Consultants

Intermediary

- Broker-dealers and registered investment advisors
- Asset allocators and multi-managers
- Private and retail banks/bank trusts
- Record-keepers
- Insurance platforms

High Net Worth

- High net worth (HNW)
- Ultra-high net-worth (UHNW)
- Family office clients

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Over the Last 3 Years, We Have Been Transforming the Business into a More Profitable, Capital-Light Business

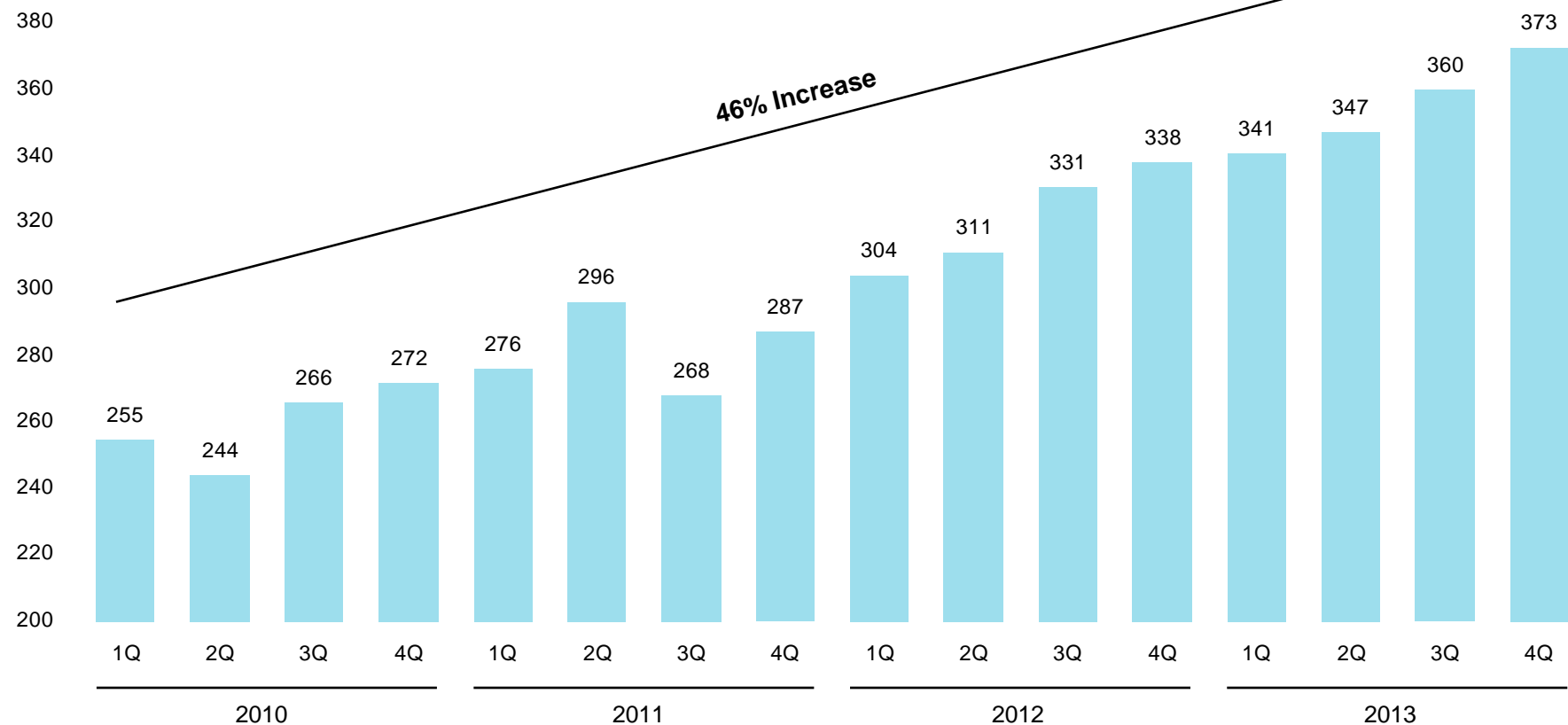
- Broadened our Long-Only business from a relatively limited (but successful) group of equity funds to a broader array of products with strong performance including high yield, and multi-asset classes
- Focused on growing our liquidity business by leveraging the Firm's corporate client relationships; AUM is up ~110% since 2010, while industry AUM is down 1%
- Returned our Real Estate Investing business to its highly rated status under new leadership, by improving performance and rationalizing costs
- Invested in our sales force, which helped drive AUM growth
- Improved overall cost structure of the business; non-compensation expenses are down 4%, while revenue has grown 11% since 2010
- Rationalized Merchant Banking, assessed and supplemented talent

Investment Management: Steady Growth in AUM

Increased AUM due to higher flows and markets

Total Assets Under Management or Supervision

(\$Bn)

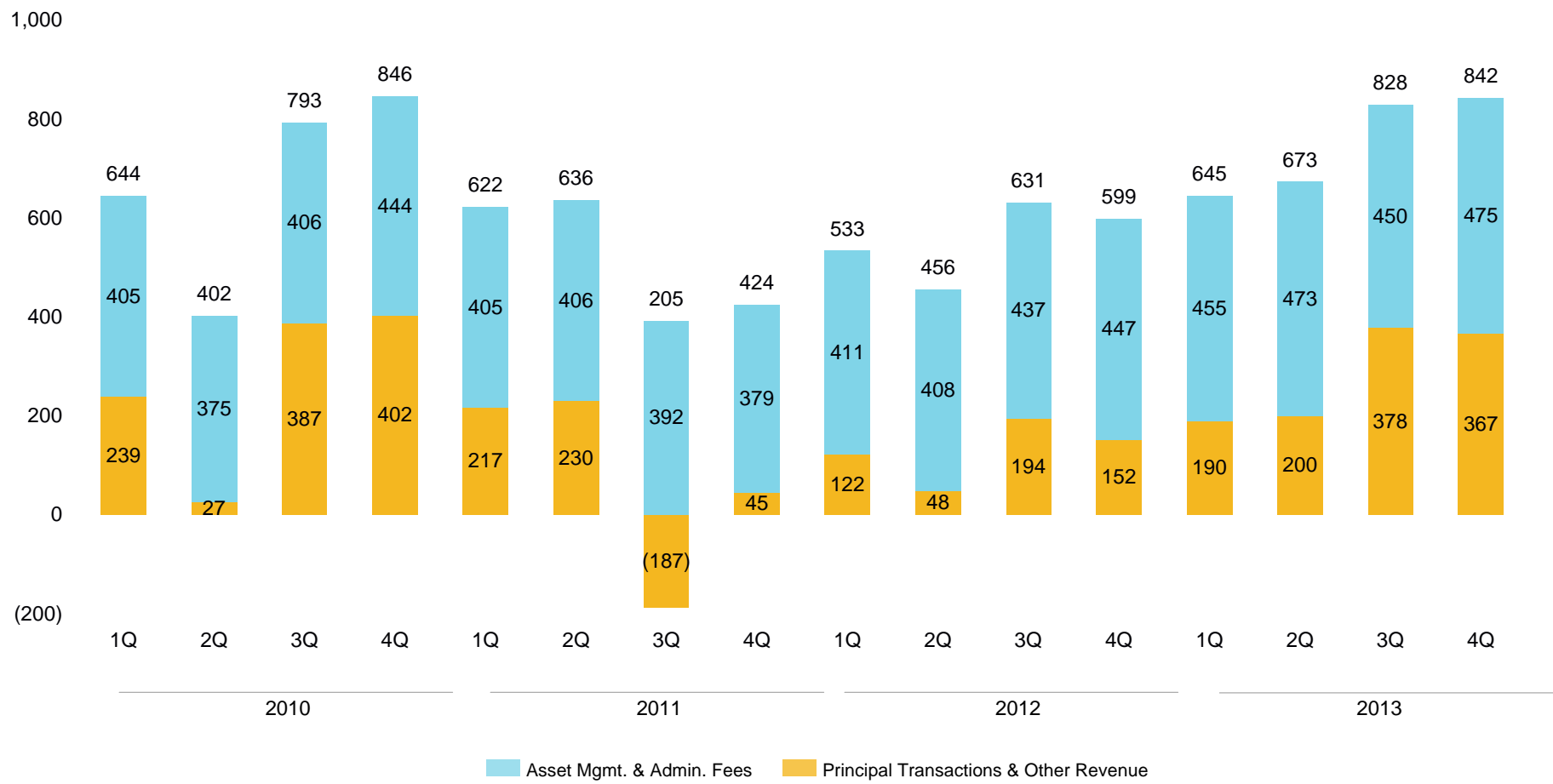


Net Revenue Trend

Increased revenues from stable management fees and improving principal transactions

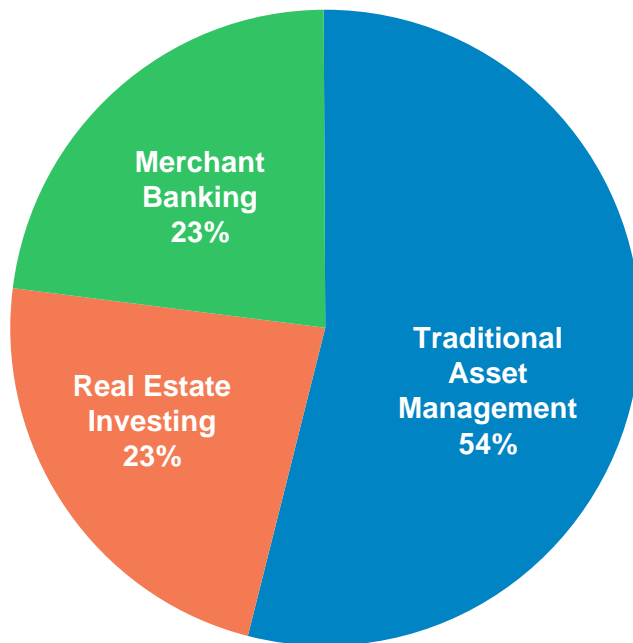
Net Revenue⁽¹⁾

(\$MM)



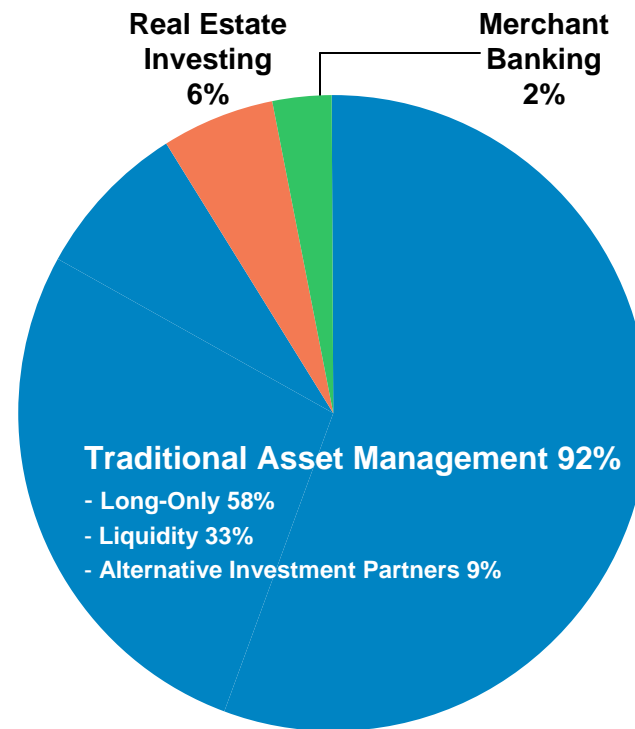
Investment Management 2013 Financial Snapshot

Full Year 2013 Net Revenues



Total Net Revenues = \$2,988MM

4Q13 Assets Under Management



Total AUM = \$373Bn

Mark-to-Market – What We Told You Three Years Ago: Traditional Asset Management

Leverage our global Morgan Stanley franchise with continued strong performance

Goal

- Create a globally integrated best-in-class business model
- Opportunistically and selectively fill in gaps and expand strategies
- Take advantage of scalability of the business to capture its profit potential
- Increase visibility of Investment Management capabilities with clients, consultants and within Morgan Stanley
- Better leverage restructured salesforce and Morgan Stanley franchise

Achieved / Actions Taken

- Strong global footprint across all major markets
- Continued strong investment performance across Equity and Fixed Income strategies
 - 86% beat benchmarks on a 3-year basis⁽¹⁾
 - 88% beat benchmarks on a 5-year basis⁽¹⁾
- 94% of AUM managed by Long-Only senior PMs who have been at the Firm on average for 15 years
- Have opportunistically added teams and investment capabilities
 - Lead portfolio managers Cyril Moule-Berteaux (Global Multi-Asset) and Richard Lindquist (High Yield) both joined Investment Management in 2011 and are delivering top decile performance⁽²⁾
- Grown revenues and improved margins to increase consistency of profitability
- Maximizing strategic benefits with our global partner MUFG
- Ongoing focus on salesforce to drive flows

Mark-to-Market – What We Told You Three Years Ago: Merchant Banking & Real Estate Investing

Restored the business as an important contributor to the Firm

Goal

- Assess each platform and develop specific strategies and structures in-line with market and regulatory environment
- Dodd-Frank and Volcker provide bright lines for efficient use of capital, consistent with strategic aspirations
- Achieve scale where we have targeted opportunity and competitive differentiation
- Ensure optimal use of Morgan Stanley network for deal sourcing and industry insights⁽¹⁾
- Improve results with stabilizing / increasing investment valuations, fewer operational incidents
- Continued focus on managing existing funds' investments
- Actively pursuing new investments

Achieved / Actions Taken

- Assessed, stabilized, and strengthened fund teams
- Operating funds as one platform, rather than disparate businesses
- Fund performance has increased steadily
- Remediated legacy real estate platform issues
- Successfully outsourced fund administration to third party vendors
- Enhanced Investment and Valuation Committee processes
- Focused on formal launch of successor funds

Mark-to-Market – What We Told You Three Years Ago: Hedge Fund Stakes / Principal Investments

Goal

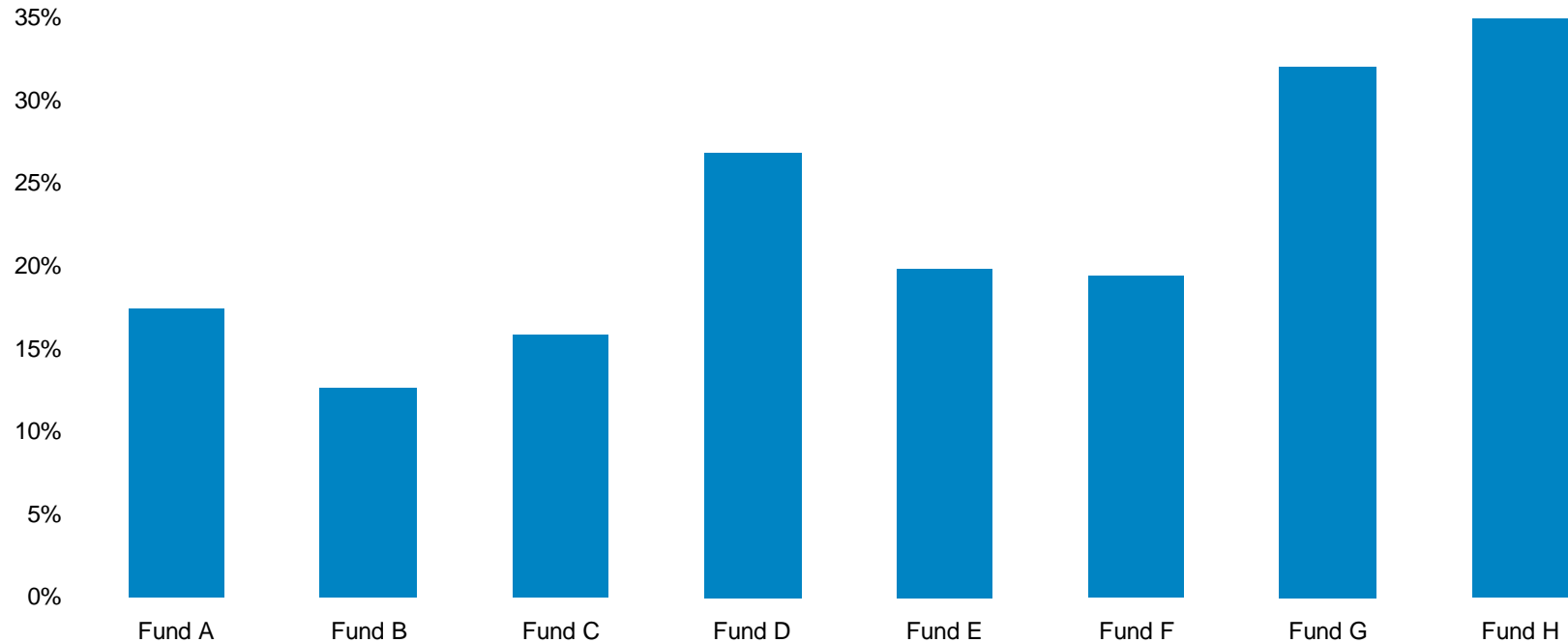
- Review principal investments including hedge fund stakes to thoughtfully free up capital, balancing commitments, timing and returns
- Key criteria include performance, differentiation, scalability, synergy across divisions of Morgan Stanley and return on capital

Achieved / Actions Taken

- Substantial progress reducing level of principal investments
 - Over \$6Bn in 2010 down to ~\$4.7Bn at YE 2013
- Improved capital efficiency by repatriating hedge fund seed capital
- Will monetize remaining hedge fund stakes not consistent with our current strategy over time
- Dispositions will significantly improve ROE

Merchant Banking and Real Estate Investing

Primary Fund Performance and Summary Information⁽¹⁾



Vintage Year ⁽²⁾	Fund A	Fund B	Fund C	Fund D	Fund E	Fund F	Fund G	Fund H
	N/A	2007	2007	2008	2008	2010	2011	2013

(1) Performance information represents gross numbers, which reflects returns before deducting certain expenses including management fees and carried interests, if any.
 (2) Vintage year is defined as the legal inception date as noted in the fund's financial statement.

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Well Positioned for the Future

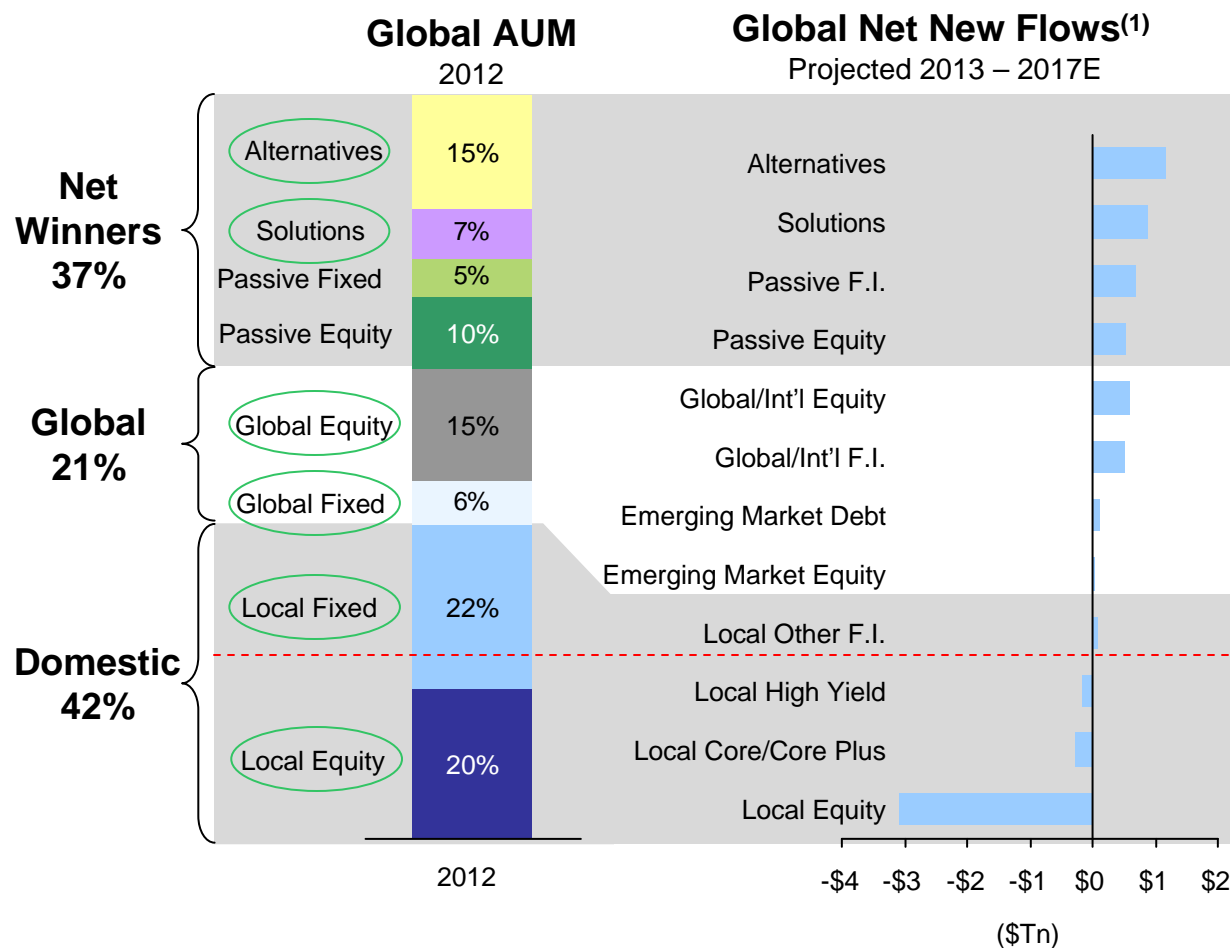
Last Three Years⁽¹⁾

- Revenue +11%
- PBT +37%
- ROE +2x
- AUM +37%
- Reduced capital associated with hedge fund stakes

Next Three Years: Continue / Accelerate

- Grow liquidity funds – AUM and profitability
- Continue to expand Long-Only offerings, fill in gaps
- Invest in distribution, particularly in North America
- Continue to raise next generation of MB/RE funds
- Reduce capital

Where the Industry is Headed: Global Asset Management Flows Opportunity by Asset Class



- Investment Management is well positioned to capitalize on future opportunities in most growing asset classes which equates to 85% of Global AUM
- Net new revenues will be driven by three organic growth catalysts:
 - Alternative Investments
 - Customized Solutions
 - High-Alpha Active Management

 Indicates where Morgan Stanley Investment Management has products

Our Business Is Well Positioned in Growth Asset Classes

	PRODUCT/STRATEGY LINEUP	PERFORMANCE HIGHLIGHTS
Alternatives	<ul style="list-style-type: none"> • Customized Advisory Portfolio Solutions • Liquid Alternatives Fund • Private Markets Income Fund • Strategic Opportunities Fund • Merchant Banking Funds • Real Estate Investing Funds 	<ul style="list-style-type: none"> • Morgan Stanley Alternative Partners won 2013 InvestHedge Fund of Hedge Fund Group of the Year⁽¹⁾ • Alternative Investment Partners Global Macro Fund (GMF) won the 2013 InvestHedge's "Global Macro and Managed Futures" Five-Year Award⁽¹⁾ • Private Equity Fund of Funds group named the "most consistent fund of funds manager" by Prequin⁽²⁾ • MSPE Asia won AVCJ's Private Equity Deal of the Year 2012⁽³⁾
Solutions	<ul style="list-style-type: none"> • Customized Hedge Fund Solutions • Multi-Asset / Diversified-Asset Portfolios 	<ul style="list-style-type: none"> • Global Tactical Asset Allocation strategy ranked in top decile on a one and three-year basis⁽⁴⁾ • Absolute Return strategy ranked top quartile on a one and three-year basis⁽⁴⁾
High-Alpha Active Management	<ul style="list-style-type: none"> • Global Quality • High Yield • Mortgages 	<ul style="list-style-type: none"> • Frontier Emerging Markets ranked #1 on a one-year and three-year basis⁽⁵⁾ • Dennis Lynch and Growth Team named MorningStar's 2013 U.S. Domestic-Stock Fund Manager of the Year⁽⁶⁾ • Global Franchise ranked in top decile on a three and five-year basis⁽⁴⁾ • Global Infrastructure ranked #2 on a three-year basis⁽⁵⁾ • High Yield ranked #2 on a one-year basis⁽⁵⁾

(1) InvestHedge Awards as of September 2013.
 (2) Prequin as of July 2013.
 (3) Asian Private Equity and Venture Capital Awards 2012.

(4) eVestment Alliance as of September 2013.
 (5) MorningStar as of December 2013.
 (6) MorningStar Award Winner 2014 © Morningstar, Inc. All Rights Reserved.
 (7) Past performance is not indicative of future results.

Where We Are Headed: Traditional Asset Management – Strategy

Maintain:

- Top performing global asset manager
- Strong investment performance
- Client diversification by region and type

Enhance:

- Continue to develop holistic solutions to meet clients' demand for deeper asset allocation and outcome-oriented strategies
- Build out more active management
- Continued expansion of Morgan Stanley and MUFG cross-selling efforts
- Further investment in North America distribution

Where We Are Headed: Traditional Asset Management – Key Challenges

- Clients replacing active managers with internal funds or beta driven strategies
- Potential regulatory reform
- Fixed Income interest rate environment leading to industry wide outflows
- Fee compression with institutional clients
- North America distribution
- Organic growth takes time

Where We Are Headed: Merchant Banking & Real Estate Investing – Strategy

With continuing strong investment performance and monetization of existing large principal stakes, business provides attractive financial model

- Historical model and metrics should change significantly over the next few years
 - Current large Morgan Stanley principal positions will continue to decline as investments are monetized opportunistically
 - Continue to make progress on legacy Real Estate Investing platform costs and issues
 - Completion of successful fund-raising for next generation of funds will start to address first-time fund / scale-related challenges
- Strong investment performance and maturing nature of funds / investment should provide increasing GP-related gains over next few years
- New model offers potential for very attractive returns
 - Limited capital investment combined with GP-related gains and necessary scale can provide strong returns on capital

Where We Are Headed: Merchant Banking & Real Estate – Key Challenges

- Increase the visibility of capabilities and attractive investment performance with clients, consultants, and within the Firm
- Opportunistically monetize minority stakes to reduce principal investments and improve capital efficiency over time
- Ensure optimal use of Morgan Stanley network for deal sourcing and industry insights⁽¹⁾
- Successful model clearly requires scaling of the business, but opportunity will take 18-36 months to materialize
 - Need to become a consistent fund-raiser to drive AUM and asset management fees

Franchise Provides Competitive Advantage For Merchant Banking and Real Estate Investing

Deal Sourcing

- Extensive global resources and network of relationships to create and source investment opportunities
- Long-term relationships with over 4,000 corporate clients around the world
- Access to Investment Banking professionals in 29 countries
- Nearly 17,000 financial advisors at Morgan Stanley Wealth Management⁽¹⁾

Control and Support Expertise

- Leverage the extensive knowledge and perspectives of global control and support experts
 - Financial control and valuation review
 - Legal and regulatory expertise
 - Tax structuring advice
- Utilize Firm procurement management to realize cost savings and synergies for portfolio companies

Morgan Stanley

Risk Management

- Comprehensive risk management framework
 - Robust set of committees and working groups responsible for platform governance
- Extensive, ongoing and periodic Internal Audit and Compliance reviews
- Robust conflicts of interest and franchise risk management

Global Financial Expertise

- Access to experts and resources across all industries on a global basis
- Core expertise in all financial products and markets
- Intellectual capital of world-class Fixed Income and Equity Research Team

Where We Are Headed: Investment Management Metrics

Drivers of Higher Returns

- 2013: Strong financial performance, driven by Traditional Asset Management and attractive returns in Merchant Banking and Real Estate Investing funds
- Next three years:
 - Fee revenues should grow as we broaden our product set and increase our AUM
 - Reduce capital including exposure to hedge fund stakes and private equity funds
- Result: More consistent revenue, earnings and returns on equity

2016 Target: \$500Bn of AUM, ~20% ROE⁽¹⁾

Conclusion

- Investment Management is a core component of Morgan Stanley
 - Attractive financial returns
 - Accretive to the Firm's client franchise
 - Increasingly steady and predictable
- We have made significant progress across Traditional Asset Management and Merchant Banking and Real Estate over the last three years
 - Improved investment performance
 - Enhanced product breadth and depth
 - Increased investment returns
 - Bolstered management capabilities
- We are well positioned for the next three years to continue to grow Investment Management across all major product areas

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