City of Ormond Beach General, Police & Fire Pension Plans

Small/Mid Cap Growth Manager Search Summary

As of June 30, 2014

	Apex	Oak Ridge	Wells	Russ 2500 Growth
Forecasted P/E (1 Year)	19.1	22.7	26.0	21.5
vs. Russell 2500 Growth	Lower	Higher	Higher	
Market Cap ($M)	$6.2 Billion	$3.4 Billion	$6.0 Billion	$4.1 Billion
vs. Russell 2500 Growth	Higher	Lower	Higher	
Dividend Yield	0.6	0.3	0.2	0.7
vs. Russell 2500 Growth	Lower	Lower	Lower	
Security Selection	Top-down/Bottom-up	Bottom-up	Bottom-up	
# of Securities	75	58	81	1,491
Foreign Securities Permitted	Yes (15% Maximum)	Yes (10% Maximum)	Yes	
Market Timer	Cash < 5%	Cash < 10%	Cash < 5%	
FEE BASED ON $5MM	0.700%	0.750%	0.950%	
RISK **(5 year - quarterly)**				
Standard Deviation	20.24	15.94	18.97	19.04
PERFORMANCE				
Equity				
1 year	31.16	25.92	20.66	26.26
3 year	16.85	14.80	15.65	14.88
5 year	24.23	20.69	23.93	21.65
10 year	14.94	10.52	11.88	9.94
OTHER IMPORTANT CONSIDERATIONS				
Year Firm Established	1987	1989	1981	
Who Est. Performance	Team	Team	Team	
Commitment	Owners/Well Paid	Owners/Well Paid	Well Paid	
Total Assets	$4.2B Firm/$3.9B Strategy	$4.2B Firm/$3.1B Strategy	$357.1B Firm/$6.0B Strategy	
Total Key Professionals	5	7	13	
Pooled vs. Separate	Separate	Separate	Separate	

Performance calculated Gross of Fees

The prices, quotes or statistics contained herein have been obtained from sources believed to be reliable, however, the accuracy cannot be guaranteed.

City of Ormond Beach General, Police & Fire Pension Plans

Small Cap Growth Manager Search Summary

As of June 30, 2014

	AMI Asset Management	Apex	Kennedy Capital (1)	Russ 2000 Growth
Forecasted P/E (1 Year)	23.4	19.7	19.0	22.0
vs. Russell 2000 Growth	Higher	Lower	Lower	
Market Cap ($M)	$1.5 Billion	$2.5 Billion	$1.6 Billion	$1.9 Billion
vs. Russell 2000 Growth	Lower	Higher	Lower	
Dividend Yield	0.2	0.4	0.2	0.6
vs. Russell 2000 Growth	Lower	Lower	Lower	
Security Selection	Bottom-up	Top-down/Bottom-up	Bottom-up	
# of Securities	30	85	65	1,163
Foreign Securities Permitted	No	Yes (15% Maximum)	No	
Market Timer	Cash < 5%	Cash < 5%	Cash < 5%	
FEE BASED ON $5MM	0.900%	0.700%	0.850%	
Fee Schedule	First $10 Million @ 0.90% Next $15 Million @ 0.80% Next $25 Million @ 0.80% Over $50 Million @ 0.60%			
RISK (5 year - quarterly)				
Standard Deviation	14.13	18.70	22.23	19.30
PERFORMANCE				
Equity				
1 year	29.44	24.39	25.59	24.73
3 year	20.56	18.07	21.64	14.49
5 year	25.98	25.80	27.69	20.50
OTHER IMPORTANT CONSIDERATIONS				
Year Firm Established	1998	1987	1980	
Who Est. Performance	Chris Sessing	Team	John Rackers	
Commitment	Owners/Well Paid	Owners/Well Paid	Well Paid	
Total Assets	$1.2B Firm/$186M Strategy	$4.2B Firm/$457M Strategy	$5.6B Firm/$25M Strategy	
Total Key Professionals	3	5	16	
Pooled vs. Separate	Separate	Separate	Separate	

Performance calculated Gross of Fees

(1) Note: Kennedy's Small Cap Growth Team was brought over from another firm in 2012. Per an agreement with the previous firm, they were permitted to take their performance track record, but agreed to not take any institutional accounts from the firm.

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City of Ormond

General, Police, & Fire Pension Plans

MANAGER SEARCH ANALYSIS

September 22, 2014

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Investment Manager Analysis

Prepared for: City of Ormond Beach

For the Period Ending 6/30/2014

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It is not sufficient basis on which to make an investment decision. This document is not complete unless it includes all of the pages indicated. Please refer to the "Important Disclosures" and "Performance Information" sections at the end of this document for further information, including information about the impact of fees on performance.

IMPORTANT NOTE: All performance and statistics in this analysis are calculated based on gross performance and do not reflect the deduction of investment management fees and expenses. See the "Important Disclosure" and "Performance Information" sections at the end of this document for further information. Past performance does not guarantee future results. Actual individual account results will differ.

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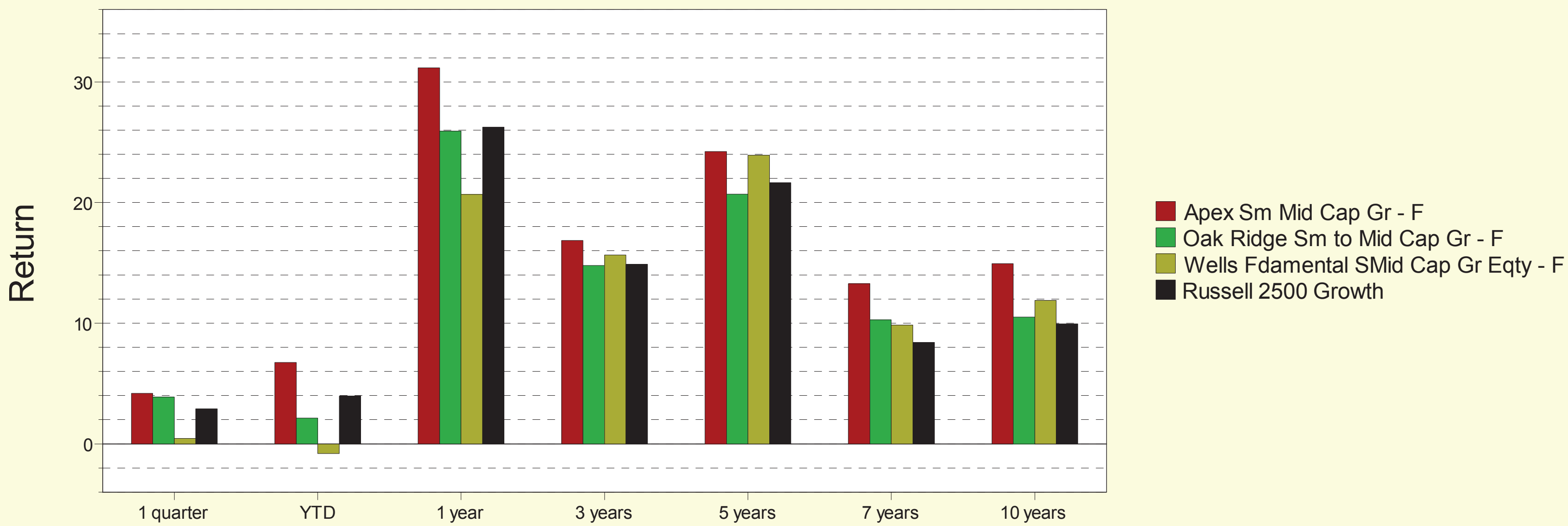
Small/Mid Capitalization Growth

Trailing Returns Analysis

Manager vs Benchmark: Return through June 2014

(not annualized if less than 1 year)



Manager vs Benchmark: Return through June 2014

(not annualized if less than 1 year)

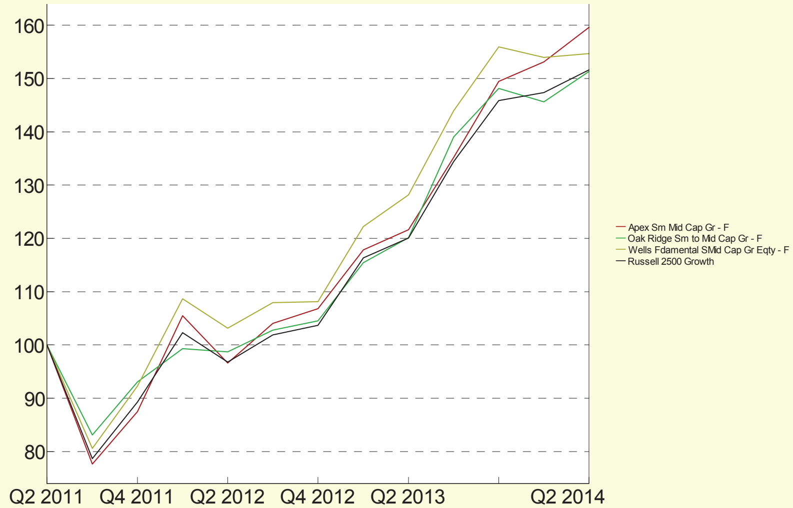
	1 quarter	YTD	1 year	3 years	5 years	7 years	10 years
Apex Sm Mid Cap Gr - F	4.19%	6.74%	31.16%	16.85%	24.23%	13.27%	14.94%
Oak Ridge Sm to Mid Cap Gr - F	3.89%	2.14%	25.92%	14.80%	20.69%	10.28%	10.52%
Wells Fdamental SMid Cap Gr Eqty - F	0.46%	-0.81%	20.66%	15.65%	23.93%	9.85%	11.88%
Russell 2500 Growth	2.90%	3.97%	26.26%	14.88%	21.65%	8.40%	9.94%

3-Year Risk/Return Analysis

Manager Performance

9-Quarter Moving Windows, Computed Quarterly

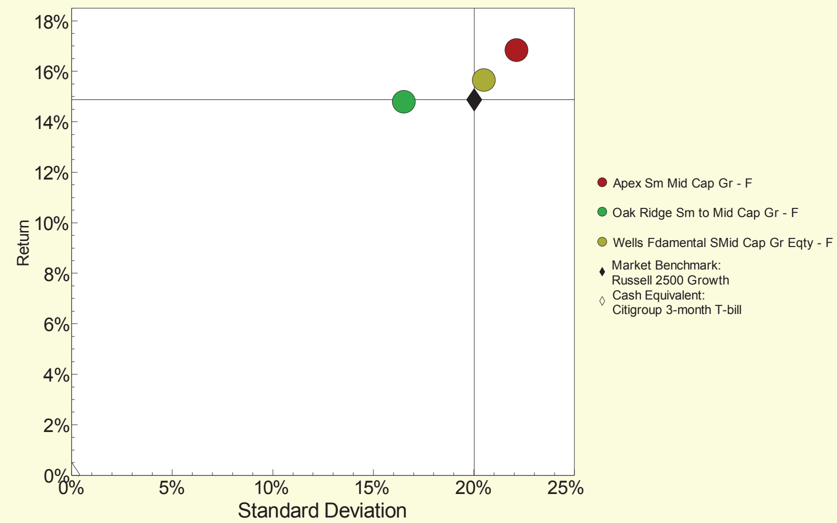
July 2011 - June 2014



Manager Risk/Return

Single Computation

July 2011 - June 2014



Return & Risk Measurements

July 2011 - June 2014: Summary Statistics

	Return	Excess Return vs. Market	Standard Deviation	Beta vs. Market	Maximum Drawdown	Up Capture vs. Market	Down Capture vs. Market	Alpha vs. Market	Sharpe Ratio	R-Squared vs. Market
Apex Sm Mid Cap Gr - F	16.85%	1.97%	22.11%	1.08	-22.36%	115.83%	112.82%	0.85%	0.76	96.07%
Oak Ridge Sm to Mid Cap Gr - F	14.80%	-0.08%	16.51%	0.78	-16.86%	83.10%	67.86%	2.88%	0.89	88.76%
Wells Fdamental SMid Cap Gr Eqty - F	15.65%	0.77%	20.47%	1.01	-19.38%	98.72%	91.74%	0.57%	0.76	97.22%
Russell 2500 Growth	14.88%	0.00%	20.01%	1.00	-21.35%	100.00%	100.00%	0.00%	0.74	100.00%

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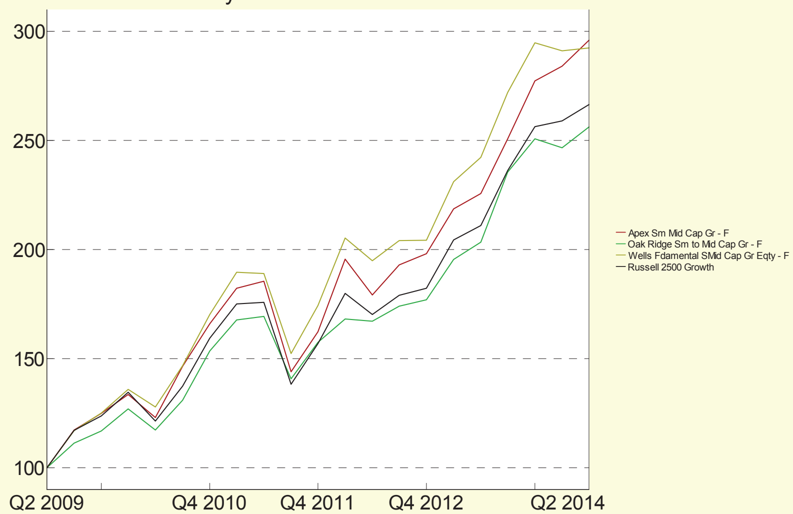
5-Year Risk/Return Analysis

Manager Performance

9-Quarter Moving Windows, Computed Quarterly

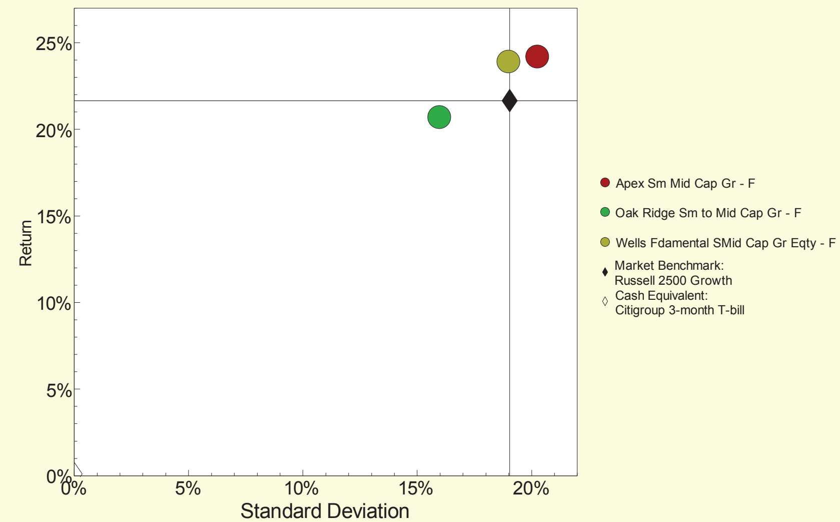
July 2009 - June 2014



Manager Risk/Return

Single Computation

July 2009 - June 2014



Return & Risk Measurements

July 2009 - June 2014: Summary Statistics

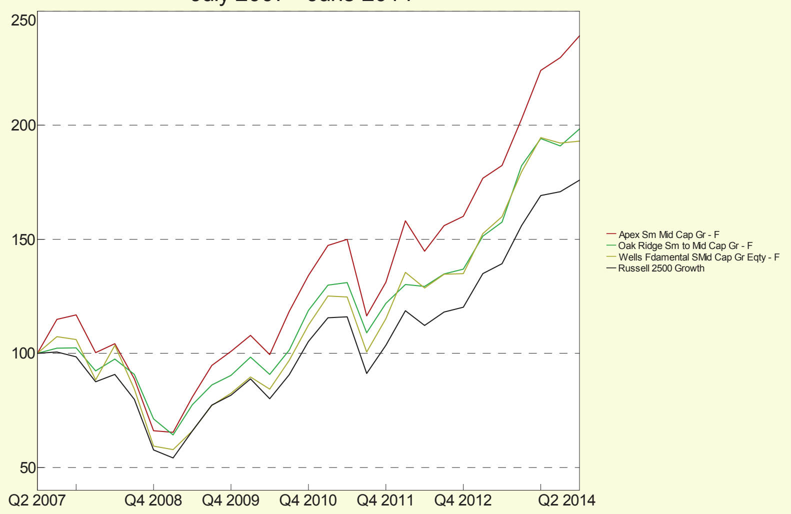
	Return	Excess Return vs. Market	Standard Deviation	Beta vs. Market	Maximum Drawdown	Up Capture vs. Market	Down Capture vs. Market	Alpha vs. Market	Sharpe Ratio	R-Squared vs. Market
Apex Sm Mid Cap Gr - F	24.23%	2.58%	20.24%	1.03	-22.36%	111.16%	104.94%	1.71%	1.19	94.51%
Oak Ridge Sm to Mid Cap Gr - F	20.69%	-0.96%	15.94%	0.80	-16.86%	86.02%	72.02%	3.06%	1.29	90.86%
Wells Fdamental SMid Cap Gr Eqty - F	23.93%	2.27%	18.97%	0.98	-19.62%	101.99%	85.33%	2.31%	1.26	97.10%
Russell 2500 Growth	21.65%	0.00%	19.04%	1.00	-21.35%	100.00%	100.00%	0.00%	1.13	100.00%

7-Year Risk/Return Analysis

Manager Performance

9-Quarter Moving Windows, Computed Quarterly

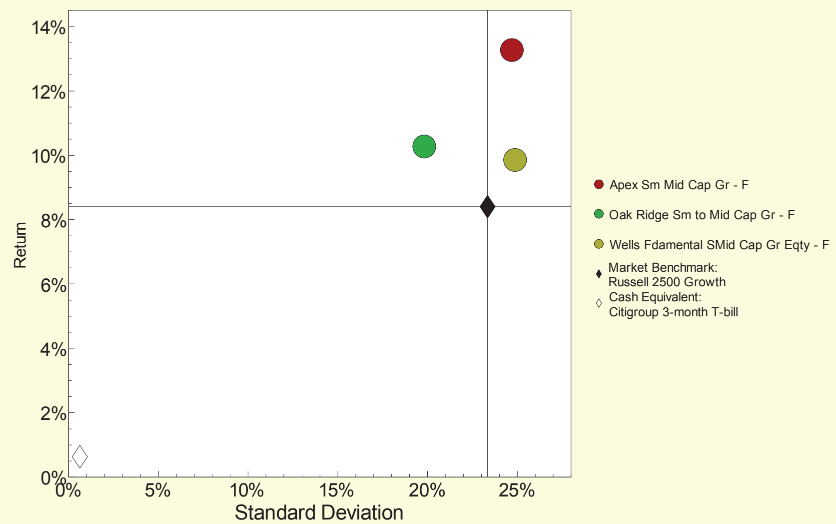
July 2007 - June 2014



Manager Risk/Return

Single Computation

July 2007 - June 2014



Return & Risk Measurements

July 2007 - June 2014: Summary Statistics

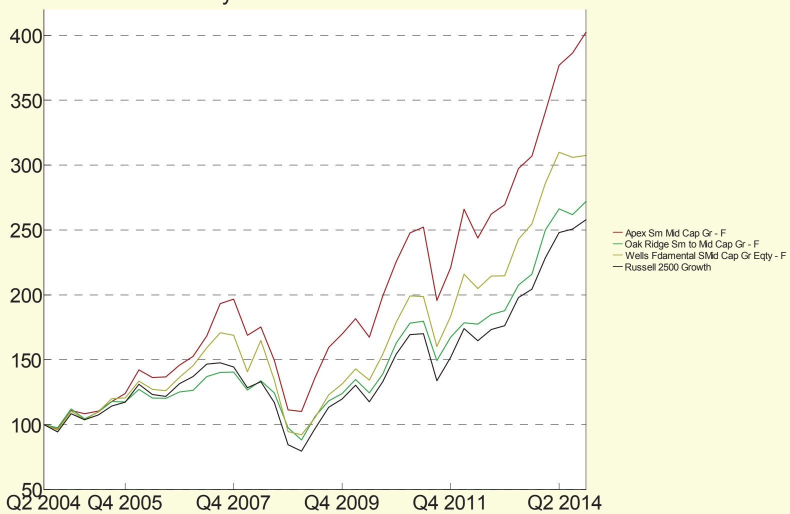
	Return	Excess Return vs. Market	Standard Deviation	Beta vs. Market	Maximum Drawdown	Up Capture vs. Market	Down Capture vs. Market	Alpha vs. Market	Sharpe Ratio	R-Squared vs. Market
Apex Sm Mid Cap Gr - F	13.27%	4.87%	24.70%	1.01	-44.04%	120.75%	97.92%	4.74%	0.51	91.71%
Oak Ridge Sm to Mid Cap Gr - F	10.28%	1.88%	19.80%	0.82	-37.24%	89.76%	79.66%	2.90%	0.49	93.97%
Wells Fdamental SMid Cap Gr Eqty - F	9.85%	1.45%	24.87%	1.01	-46.07%	110.57%	103.63%	1.67%	0.37	89.95%
Russell 2500 Growth	8.40%	0.00%	23.35%	1.00	-46.15%	100.00%	100.00%	0.00%	0.33	100.00%

10-Year Risk/Return Analysis

Manager Performance

9-Quarter Moving Windows, Computed Quarterly

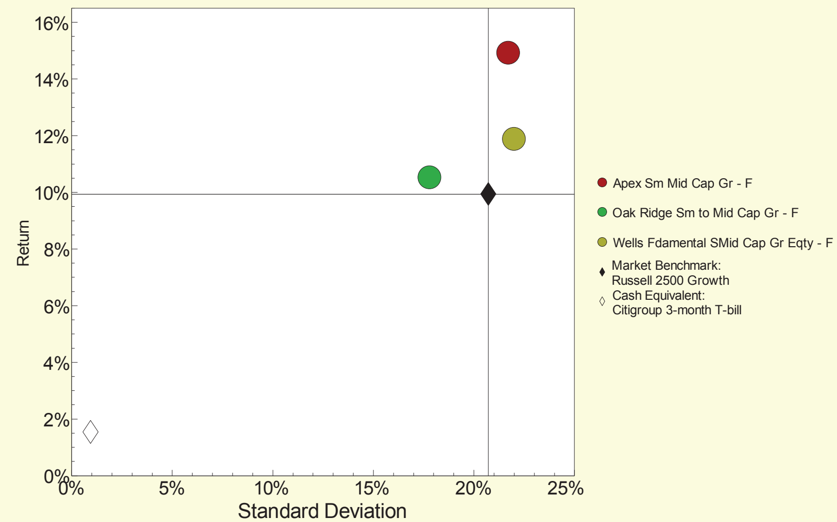
July 2004 - June 2014



Manager Risk/Return

Single Computation

July 2004 - June 2014



Return & Risk Measurements

July 2004 - June 2014: Summary Statistics

	Return	Excess Return vs. Market	Standard Deviation	Beta vs. Market	Maximum Drawdown	Up Capture vs. Market	Down Capture vs. Market	Alpha vs. Market	Sharpe Ratio	R-Squared vs. Market
Apex Sm Mid Cap Gr - F	14.94%	5.00%	21.71%	1.00	-44.04%	118.46%	92.78%	4.80%	0.62	91.91%
Oak Ridge Sm to Mid Cap Gr - F	10.52%	0.59%	17.79%	0.83	-37.24%	87.58%	80.01%	1.98%	0.50	92.71%
Wells Fdamental SMid Cap Gr Eqty - F	11.88%	1.95%	21.98%	1.01	-46.07%	111.33%	102.18%	2.02%	0.47	90.37%
Russell 2500 Growth	9.94%	0.00%	20.72%	1.00	-46.15%	100.00%	100.00%	0.00%	0.41	100.00%

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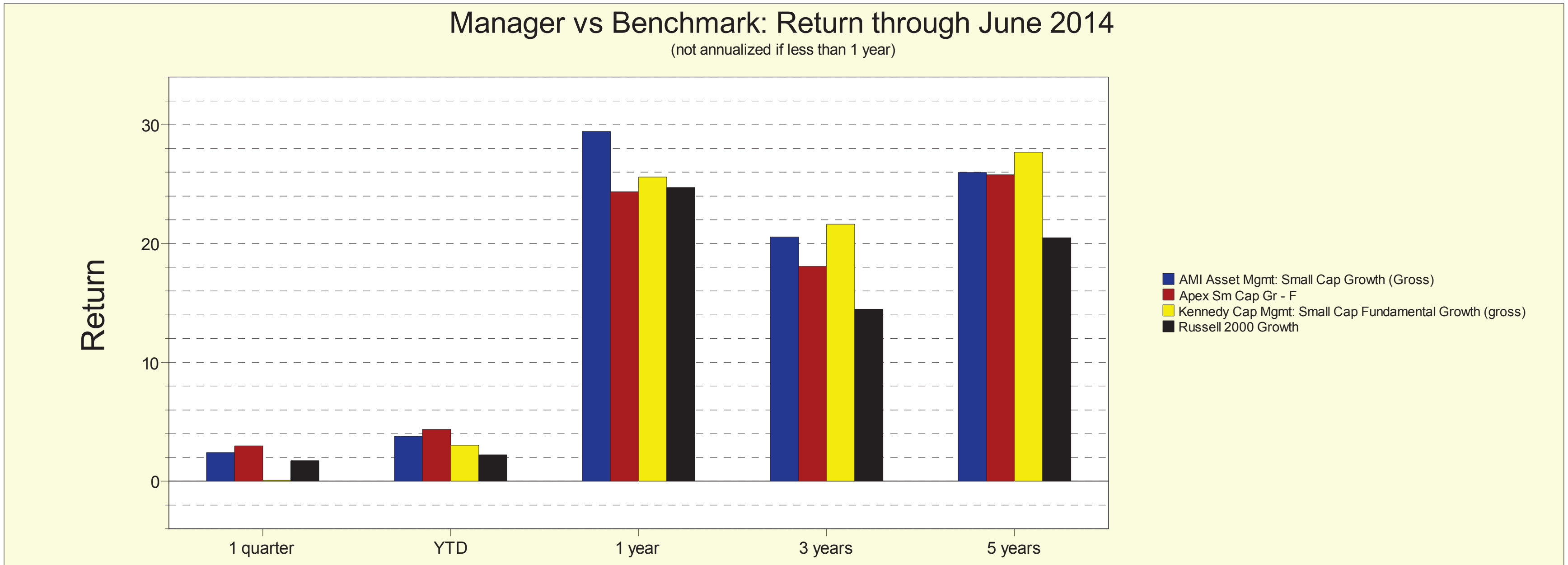
Small Capitalization Growth

Trailing Returns Analysis



Manager vs Benchmark: Return through June 2014
(not annualized if less than 1 year)

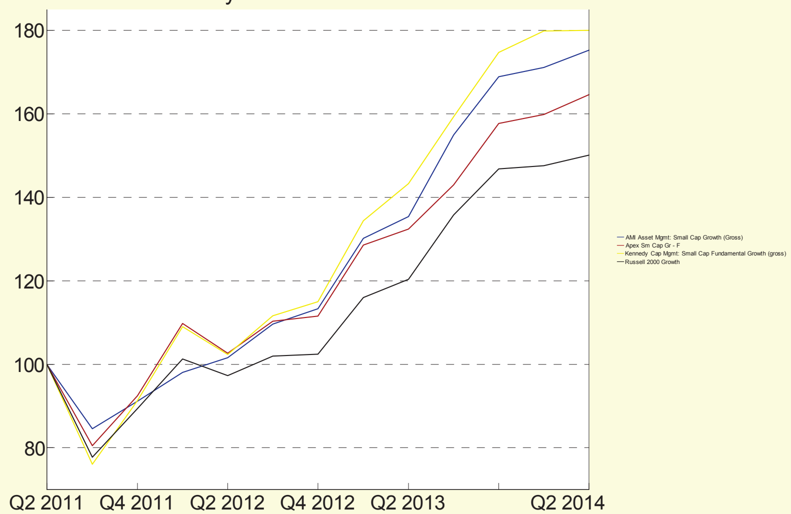
	1 quarter	YTD	1 year	3 years	5 years
AMI Asset Mgmt: Small Cap Growth (Gross)	2.41%	3.78%	29.44%	20.56%	25.98%
Apex Sm Cap Gr - F	2.98%	4.37%	24.36%	18.07%	25.80%
Kennedy Cap Mgmt: Small Cap Fundamental Growth (gross)	0.08%	3.02%	25.59%	21.64%	27.69%
Russell 2000 Growth	1.72%	2.22%	24.73%	14.49%	20.50%

3-Year Risk/Return Analysis

Manager Performance

9-Quarter Moving Windows, Computed Quarterly

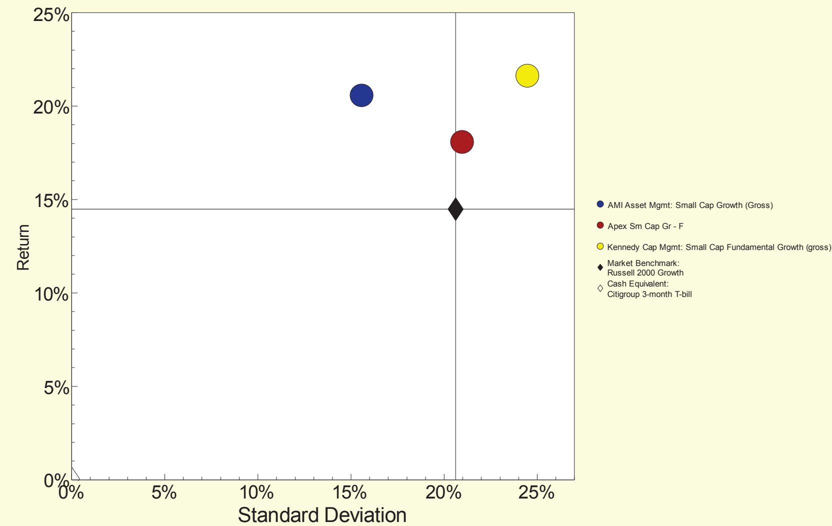
July 2011 - June 2014



Manager Risk/Return

Single Computation

July 2011 - June 2014



Return & Risk Measurements

July 2011 - June 2014: Summary Statistics

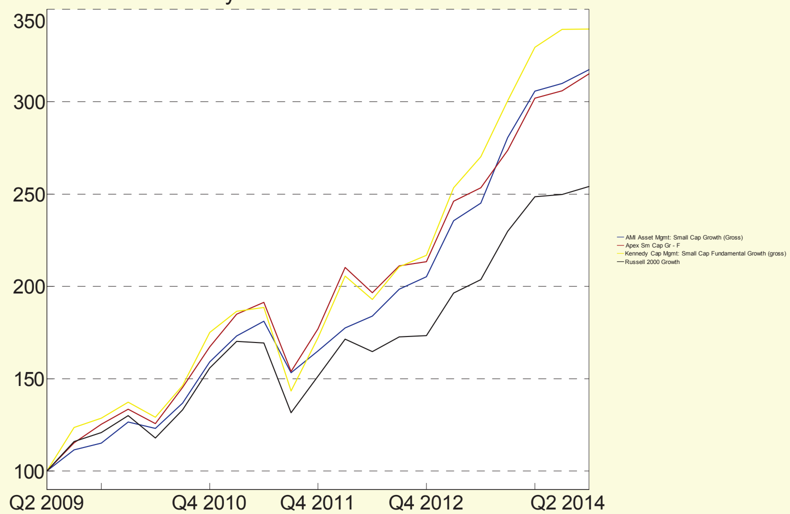
	Return	Excess Return vs. Market	Standard Deviation	Beta vs. Market	Maximum Drawdown	Up Capture vs. Market	Down Capture vs. Market	Alpha vs. Market	Sharpe Ratio	R-Squared vs. Market
AMI Asset Mgmt: Small Cap Growth (Gross)	20.56%	6.07%	15.57%	0.70	-15.41%	99.28%	48.99%	9.52%	1.32	86.01%
Apex Sm Cap Gr - F	18.07%	3.58%	20.95%	0.98	-19.53%	114.21%	97.83%	3.51%	0.86	93.56%
Kennedy Cap Mgmt: Small Cap Fundamental Growth (gross)	21.64%	7.15%	24.46%	1.16	-23.98%	139.11%	113.20%	4.61%	0.88	96.21%
Russell 2000 Growth	14.49%	0.00%	20.62%	1.00	-22.25%	100.00%	100.00%	0.00%	0.70	100.00%

5-Year Risk/Return Analysis

Manager Performance

9-Quarter Moving Windows, Computed Quarterly

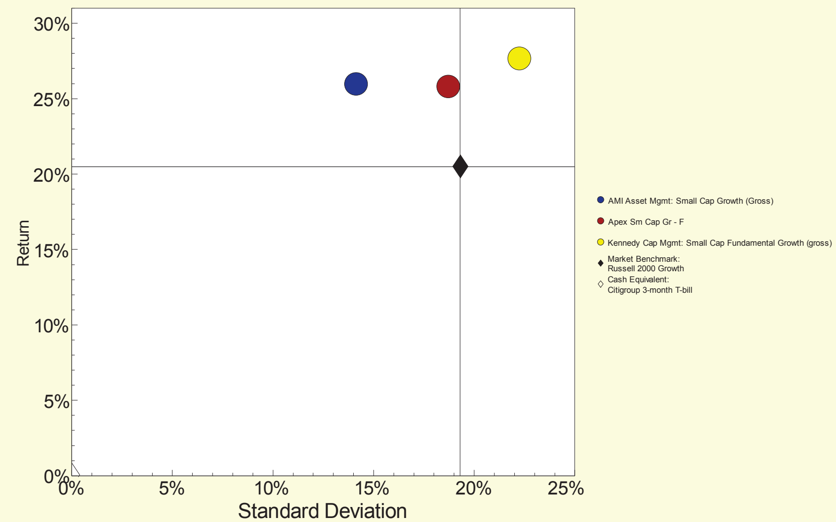
July 2009 - June 2014



Manager Risk/Return

Single Computation

July 2009 - June 2014



Return & Risk Measurements

July 2009 - June 2014: Summary Statistics

	Return	Excess Return vs. Market	Standard Deviation	Beta vs. Market	Maximum Drawdown	Up Capture vs. Market	Down Capture vs. Market	Alpha vs. Market	Sharpe Ratio	R-Squared vs. Market
AMI Asset Mgmt: Small Cap Growth (Gross)	25.98%	5.48%	14.13%	0.69	-15.41%	94.97%	33.28%	10.81%	1.83	87.51%
Apex Sm Cap Gr - F	25.80%	5.30%	18.70%	0.93	-19.53%	111.86%	82.00%	5.89%	1.37	92.92%
Kennedy Cap Mgmt: Small Cap Fundamental Growth (gross)	27.69%	7.19%	22.23%	1.12	-23.98%	125.90%	98.44%	4.28%	1.24	94.08%
Russell 2000 Growth	20.50%	0.00%	19.30%	1.00	-22.71%	100.00%	100.00%	0.00%	1.06	100.00%

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Zephyr StyleADVISOR uses principles of William Sharpe's theory of returns-based style analysis. Returns-based style analysis assists in identifying investment style without examining the individual security holdings of a portfolio. StyleADVISOR regresses the historical returns of the individual manager(s) against different style indices to identify the pattern of returns that the fund is most closely correlated to. MSSB does not recommend the use of returns-based style analysis without the supporting fundamental research of the fund (research attribution reports).

The underlying data is believed to be reliable but accuracy and completeness cannot be assured. While the historical rates of return described in this report are believed to accurately reflect the overall nature of the portfolio, the constituent securities have not been reviewed. This evaluation is for informational purposes only and is not intended to be an offer, solicitation or recommendation with respect to the purchase or sale of any security or a recommendation of the services provided by any money management organization. Past results are not necessarily indicative of future performance.

Gross Rates of Return

The investment results depicted herein represent historical Gross performance before the deduction of investment management fees and are based on settlement date accounting methods. Annual, cumulative and annualized total returns are calculated assuming reinvestment of dividends and income plus capital appreciation. The client is referred applicable Morgan Stanley ADV brochures, available at www.smithbarney.com/adv or from your Financial Advisor. Actual returns will be reduced by expenses that may include management fees and cost of transactions. As fees are deducted quarterly, the compounding effect will be to increase the impact of the fees by an amount directly related to the gross account performance. For example, on an account with a 2% fee, if the gross performance is 10%, the compounding effect of the fees will result in a net performance of approximately 7.81%. This Report is for one-on-one client presentations only.

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To the extent the investments depicted herein represent international securities, you should be aware that there may be additional risks associated with international investing involving foreign, economic, political, and/or legal factors. International investing may not be for everyone. In addition, small capitalization securities may be more volatile than those of larger companies, but these companies may present greater growth potential.

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Performance Information

The investment results depicted herein represent historical Gross performance with no deduction for investment management fees or transaction costs. Such figures reflect the reinvestment of dividends. Actual returns will be reduced by such expenses. You should refer to Morgan Stanley 's ADV brochure for full disclosure of Morgan Stanley 's fees. As fees are deducted from an account on a quarterly basis, the compounding effect will be to increase the impact of the fees by an amount directly related to the gross account performance. For example, on an account with a 2% fee, if the gross performance is 10%, the compounding effect of the fees will result in a net performance of approximately 7.81%.

You would not necessarily have obtained the performance results shown in the document if you had been invested with these managers or funds over the time periods illustrated. Actual performance of individual accounts will vary due to factors such as the timing of contributions and withdrawals, individual client restrictions, rebalancing schedules and fees.

Moreover, the illustrations set forth in the document benefit from the availability of actual historical returns. Manager or funds that have not performed as well as those illustrated may not have been considered for inclusion in the document. Such hindsight is obviously not available to an investment adviser such as Morgan Stanley when making "real time" investment recommendations.

SOURCE OF PERFORMANCE INFORMATION FOR FUNDS: For any fund shown in this report, the performance data is obtained from databases maintained by parties outside Morgan Stanley . This data has been included for your information, and has not been verified by Morgan Stanley in any way. See "Sources of Information" below.

NET PERFORMANCE

See the attached Morningstar profiles for each fund in the report for standardized fund performance (i.e. returns net of any maximum sales charges that apply if you purchase the fund outside of our investment advisory programs) and also returns net of the maximum annual investment advisory fees that apply if you purchase the fund in one of our investment advisory programs. You should carefully read the manager/fund profiles, which may contain more up-to-date performance information than in this report.

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This report may include investment options that are managed by or affiliated with Morgan Stanley . Morgan Stanley may have incentive to recommend such investment options to you because we may earn more compensation if you invest in these investment options than if you invest in other investment options.

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Alpha: Alpha is a risk (beta adjusted) measurement. Officially, alpha measures the difference between a portfolio's actual returns and what it might be expected to deliver based on its level of risk. Higher risk generally means higher reward. A positive alpha means the fund has beaten expectations. A negative alpha means that the manager failed to match performance with risk. If two managers had the same return but one had a lower beta, that manager would have a higher alpha. StyleADVISOR uses the standard intercept calculation.

Beta: Beta represents the systematic risk of a portfolio and measures its sensitivity to a benchmark. A portfolio with a beta of one is considered as risky as the benchmark and would therefore provide expected returns equal to those of the market during both up and down periods. A portfolio with a beta of two would move approximately twice as much as the benchmark.
Excess Return - The difference between the returns of two portfolios. Usually excess return is the difference between a manager's return and the return of a benchmark for that manager. In the context of a beta benchmark, excess return refers to the difference between a manager or market benchmark and Tbills.

Down Capture Ratio: the ratio of the manager's overall performance to the benchmark's overall performance, considering only periods that are negative in the benchmark.

Excess Returns: represent the average quarterly total returns of the manager relative to its benchmark. A manager with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the manager's return.

Manager Style Graph: an attempt to depict how the manager's historical returns (not actual portfolio holdings) "track" a group of benchmarks. For example, Domestic Equity products will be presented versus Large and Small, Growth and Value benchmarks. If the R2 of the Style Benchmark is lower than 80%, then the attempt to measure the manager's style was problematic (this will often happen with non- diversified portfolios, or eclectic investment disciplines.)

Moving Window: multiple data calculations can be done within a single span of time. For example, in a 5 year period you can display five 1-year values with non-overlapping data, or you can display nine 3-year values by moving each 3-year "moving window" one quarter at a time. Each discrete time period, either overlapping or not, is referred to as a "moving window."

Return: A compounded and annualized rate of return.

R-Squared: (Correlation Squared) - A measure of how well two portfolios track each other. R-squared ranges between zero and 100%. An R-squared of 100% indicates perfect tracking, while an R-squared of zero indicates no tracking at all. R-squared is used in style analysis to determine how much information about a return series the style benchmark has been able to capture. The higher the R-squared, the better the benchmark.

Important Morgan Stanley Disclosures

Sharpe Ratio: The Sharpe Ratio, developed by Professor William F. Sharpe, is a measure of reward per unit of risk -- the higher the Sharpe Ratio, the better. It is a portfolio's excess return over the risk-free rate divided by the portfolio's standard deviation. The portfolio's excess return is its geometric mean return minus the geometric mean return of the risk-free instrument (by default, t-bills).

Standard Deviation: quantifies the volatility associated with a given product. The statistic measures the quarterly variation in returns around the mean return.

Style Benchmark: the blended benchmark that best matches the manager's returns (lowest tracking error.)

Tracking Error: represents the Standard Deviation of the Excess Return and provides a historical measure of the variability of the manager's returns relative to its benchmark. **Up Capture Ratio:** measures the manager's overall performance to the benchmark's overall performance, considering only periods that are positive in the benchmark. **Universe:** a peer group of managed investment products with reasonably similar characteristics.

Apex SMID Growth

FOCUS LIST RESEARCH REPORT

JEFF CHAPRACKI
Vice President
Jeffrey.P.Chapracki@ms.com
+1 302 888-4144

STRATEGY DETAILS

INVESTMENT STYLE:	*Small/Mid Cap Growth*
EQUITY SUB-STYLE:	*Traditional Growth*
BENCHMARK:	*Russell 2500 Growth Index*
CG IAR RESEARCH STATUS:	*Focus List*
PRODUCT TYPE:	*Separately Managed Account*

www.apexcm.com

STRATEGY DESCRIPTION

The Apex SMID Growth strategy seeks to invest in small and mid cap stocks with strong growth characteristics and reasonable valuations that are within sectors and industries that the team believes are poised to benefit from the current global economic environment. The manager uses both top-down thematic and macro analysis combined with bottom-up research to build portfolios.

Summary of Opinion:

- CG IAR (Consulting Group Investment Advisor Research) placed the Apex SMID Growth strategy on the Focus List given our high opinion of the firm, team, and investment process.
- Apex Capital Management Inc. (Apex) is a small investment manager focused on growth investing. The firm is independent and the key members of the organization have an ownership stake, which CG IAR believes translates into an investment team that is focused on the success of the firm and strategies.
- CG IAR has a favorable view of the team's dynamic process and collaborative approach, which draws upon the experience and diverse talents of the investment professionals. Additionally, the investment team that built the successful track record has experienced no turnover.
- The investment approach incorporates macroeconomic, thematic, and bottom-up fundamental research. The team looks to build portfolios that consist of "stable growth" and "emerging growth" companies in an effort to deliver excess returns while managing risk. This approach has led to strong risk-adjusted returns over time.
- The portfolio will own 50-75 stocks with a 5% position maximum. Portfolio turnover during the past 5 years has averaged around 50% (40% in 2013).
- The 5-member investment team manages 6 products, including the Apex SMID Growth strategy, which is the firm’s flagship product at over 80% of total firm AUM. CG IAR has some concerns surrounding personnel resources and product concentration risk, given the product’s growth in AUM.

Focus List		Snapshot				
Investment Capabilities	**Business Evaluation**	**Short-Term Performance Analysis (≤ 3Yrs)**	**Long-Term Performance Analysis (> 3 Yrs)**	**Track Record Reliability**	**Expected Benchmark Sensitivity**	**Expected Portfolio Turnover**
Above Average	**Above Average**	Above Expectations	**Above Expectations**	**High**	High	High
Average	Average	**In-Line**	In-Line	Moderate	Moderate	**Moderate**
Needs Improvement	Needs Improvement	Below Expectations	Below Expectations	Low	**Low**	Low

See Opinion Description at the end of this report.

Positive Attributes

- An independent, employee owned firm.
- The success of the firm and employees is directly tied to the success of the strategies.
- A dynamic process and collaborative approach that draws upon the expertise of all investment professionals.
- The investment team that built the successful track record has experienced no turnover.
- Compelling relative and risk-adjusted performance over time.

Points to Consider

- The process combines top-down global thematic and macroeconomic components with bottom-up fundamental company analysis.
- The manager looks to construct the portfolio with "stable growth" and "emerging growth" companies in an effort balance risk. The portfolio tends to be more heavily weighted to the “stable growth” category, which have a conservative-to-traditional growth profile and could alternatively be named “established growth” companies. The “emerging growth” companies tend to skew towards the traditional-to-aggressive end of the style spectrum.
- The portfolio may be weighted more heavily in small caps or mid caps relative to the benchmark at times, which may skew the strategy’s market capitalization profile.
- The top-down components may lead to higher tracking error and larger sector over/under-weightings relative to the benchmark.

Areas of Concern

- The firm’s expansion of product offerings has the potential to stretch resources. Apex states they will add to staff as needed and are adequately resourced.
- The firm’s asset base is concentrated in the SMID Growth product, which could pose a risk if the strategy experienced a period of under-performance leading to a loss of investors.
- With substantial growth in the Smid and Small Cap Growth strategies, CG IAR is monitoring the portfolio for “cap creep” (an increase in market capitalization levels) and “name creep” (an expansion in the number of holdings range) as a means of absorbing additional assets as estimated capacity was revised from $3 billion to $4.5 billion.

Performance Expectations

- CG IAR believes that the strategy has the potential to out-perform in different market environments owing to the flexibility of the investment process. However, due to the team’s valuation discipline, the portfolio may not keep pace in a market where excessive valuations are rewarded.
- Apex’s “emerging growth” securities may offer significant upside potential although with greater risk. However, the portfolio’s balance between “stable growth” and “emerging growth” companies should dampen overall volatility.

Performance Opinion

- The portfolio performed at the upper-end of expectations over the trailing 3-year annualized period ending 6/30/2014. Although the strategy trailed the index in 2013, Apex out-performed thus far in 2014 and posted admirable results in 2012, despite struggling in 2011 (an environment generally more conducive to conservative growth managers).
- Longer-term performance is above expectations. Apex outperformed its benchmark over the trailing 5, 7, and 10-year annualized periods ending 2Q2014 by a sizable margin.

News Summary

- 2Q13 – Apex named as sub-advisor on the Touchstone Small Cap Growth Fund.
- 1Q12 – Apex SMID Growth research status changed from Approved List to Focus List.
- 4Q08 – Apex hired an additional marketing professional.
- 2Q08 – Sunil Reddy joins Apex as a Portfolio Manager.
- 2Q07 – Apex hires a Director of Marketing.

Additional Analyst Comments

- The manager's market capitalization purchase range is between $150 million to $10 billion with a sweet spot of $500 million to $5 billion. They will let successful positions appreciate up to approximately $13 billion at-market. While the manager stays within the small and mid cap segment, the portfolio may be more heavily weighted in smaller caps or mid caps at times.
- The holdings range may breach the upper limit in instances where the manager wants to invest in higher risk areas of the market (i.e. biotech) and takes a "basket approach", holding more positions at reduced weights.
- Since 2013, the team structure shifted from a generalist format to specific sector coverage that plays to the strengths of the investment professionals. The major growth sectors have dual-coverage (technology, health care, and consumer discretionary). Portfolio managers also serve in an analyst capacity.
- In the event that CIO Nitin Kumbhani is incapacitated, analyst Kamal Kumbhani (his wife) and PM Mike Kalbfleisch would decide who would succeed Nitin as CIO. In terms of eventual ownership succession, Mrs. Kumbhani would also assume her husband's ownership stake. CG IAR is comfortable that the team has the depth of personnel to head the firm in terms of business and investment leadership, however additional hires would likely be required to absorb research coverage responsibilities.
- Apex has the ability to purchase Exchange Traded Funds (ETFs). This is a rare occurrence and has been executed once in the history of the strategy. In the first quarter of 2009, as part of the manager's macroeconomic view, the manager wanted to invest in financial banks, but did not want to take the stock specific risk. Therefore, Apex purchased an approximate 2% position in a small cap regional bank ETF.
- According to Apex, the typical portfolio overlap between the Small Cap Growth and SMID Growth strategies has been approximately 30%.
- Economic Sector Constraints:

Benchmark weight	Apex Minimum	Apex Maximum
Greater than 20%	Half Weight	40%
10-20%	0%	Double Weight
Less than 10%	0%	Greater of double weight +5% or 15%

Additional News Summary

- None.

Portfolio Traits

Equity	
Range of Holdings	50-75
Maximum Position Size	5% Maximum
Econ Sector Constraints	See Additional Comments
Tracking Error Target	No Target
Typical Annual Turnover	70%-125%. Turnover tends to be higher at market inflection points. In recent years, it has averaged 50% per annum.
Invests in ADRs	15% Maximum
Invests in ETFs	Yes, but rare
Invests in Derivatives	No
Invests in IPOs	No
Liquidity Constraints	Typically 5 days trading volume.
Maximum Cash	5%
Typical Cash Position	0%-5%
Est. Product Capacity	$4.5 billion
Source: Apex	

Investment Capabilities Overview

Portfolio Management Team

- The investment team consists of four portfolio managers and one analyst. The portfolio managers also have analyst coverage responsibilities.
- Nitin Kumbhani serves as the firm's CIO. Mr. Kumbhani founded the firm in 1987 after selling his ATM technology software company.
- In 2000, the firm added PMs Mike Kalbfleisch and Jan Terbrueggen who come from investment backgrounds with commonality at John Nuveen & Co. Messer's Kalbfleisch and Terbrueggen both have nearly 30-years of investment experience.
- The latest addition to the investment team was PM Sunil Reddy in 2008, who has a background in fixed income and covers the technology and financial sectors. He has nearly 25-years of investment experience.
- Analyst Kamal Kumbhani joined the firm in 1994 and has over 20-years of investment experience. She mainly provides coverage in the health care sector.

Investment Philosophy & Process

- Apex focuses on identifying companies with strong growth characteristics and reasonable valuations that are within sectors and industries that the team believes are poised to benefit from the current global economic environment.
- New ideas are generated from the firm's top-down global themes and quantitative screening. Global secular themes are continuously established to identify growth opportunities that may offer investment tailwinds.
- The firm screens for key characteristics considered in analyzing each type of company. This is then followed by fundamental analysis with the goal of confirming sustainable growth characteristics.
- Apex also seeks companies with a global strategy & position, management quality, a catalyst that confirms the sustainability of growth, and reasonable valuations relative to history and peers.
- Apex seeks to balance the portfolio with "stable growth" and "emerging growth" companies. The range in allocation between stable growth and emerging growth companies is a function of the investment team's overall view of the environment (risk) and their bottom-up, fundamental research. On average, the portfolio is comprised of a 70/30 mix of stable/emerging growth companies, however a more offensive posture would be a 60/40 split, or a more defensive posture at 80/20.
    - Key characteristics considered for stable growth companies include; earnings growth acceleration, consistency in earnings growth, profitability, cash flow generation, financial leverage, and improving operating efficiency.
    - Factors evaluated for emerging growth companies include; revenue growth acceleration, positive earnings revisions, unique product niches, a growing addressable market, and whether the market underestimates its potential.
- Portfolios are constructed by evaluating the current economic and investment environment to determine appropriate sector and security weights.

Summary of Investment Capabilities Opinion

- CG IAR has a favorable opinion of the team based upon their experience and the diverse talents that each member brings to a dynamic investment process. For example, Mr. Terbrueggen has experience in top-down economic analysis, which helps to shape the firm's macro views and themes. Both Messrs Kumbhani and Reddy have backgrounds in the technology industry, and Mr. Reddy has fixed income investment experience. Mr. Kalbfleisch has an accounting background. Ms. Kumbhani has focused on biotechnology and health care since 1994, with a degree in chemistry, physics, and math.
- All members of the investment team contribute to all aspects of the process. Although Mr. Kumbhani has ultimate veto authority, CG IAR views this as a team approach with all individuals collectively contributing to the added value overtime.
- While an investment idea does not have to meet a theme, CG IAR believes the team's focus on ideas backed by secular growth opportunities has been a key component to their success.
- While CG IAR believes the team's focus and execution on macro, thematic, and bottom-up research has historically led to consistent relative returns, factor bets also have the potential for amplifying the downside if the market views a given theme unfavorably.

Other Key Items

Decision-Making

- Apex operates as an investment committee and all decisions are made on a consensus basis. Nitin Kumbhani is the CIO and has veto authority, which according to Apex is rarely used in practice.

Sell Process

- Stocks are reviewed for sale for valuation reasons, fundamental deterioration, for a better idea, or in adherence to portfolio construction parameters.
- Stock performance is also measured relative to the index over a trailing four-quarter period and is reviewed if it falls to the bottom two deciles in screening.

Track Record Reliability

- CG IAR views the track record reliability as high given that four of five team members have been on the strategy for the duration of its track record.
- PM Sunil Reddy was the most recent addition to the investment team in 2Q 2008.
- The composite had low assets and accounts from 2000-2006. The product began gaining traction in the 2007-2008 period and has since experienced low dispersion.
- The strategy was incepted 04/01/2000.

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Nitin Kumbhani	Chief Investment Officer/PM	Consumer Discretionary, Tech, Health Care			1987	1987	2000
Jan Terbrueggen	Portfolio Manager	Energy, Materials	●	Xavier University	1985	2000	2000
Mike Kalbfleisch, CPA	Portfolio Manager, CCO	Industrials, Consumer Staples	●		1985	2000	2000
Sunil Reddy	Portfolio Manager	Consumer Discretionary, Tech, Financials	●	Case Western Reserve University	1987	2008	2008
Kamal Kumbhani	Research Analyst	Health Care, Biotechnology		University of Madras	1987	1994	2000

Source: Apex

Other Key Professionals

Investment Team Overview	Position	Area of Responsibility	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Mark Harrell	Director of Marketing	Business Development			1987	2007	N/A
James Brown	Director of Operations	Operations and Trading		Wright State University	1995	2005	N/A

Source: Apex

Primary Functions of Key Professionals

Name	Security Selection	Security Research	Portfolio Construction	Trading	Client Service	Business Management
Nitin Kumbhani	●	●	●			●
Jan Terbrueggen	●	●	●	●		
Mike Kalbfleisch	●	●	●	●		●
Sunil Reddy	●	●	●			
Kamal Kumbhani		●				
Mark Harrell					●	●
James Brown				●		●

Source: Apex

Business Structure Overview

History/Ownership

- Apex Capital Management, Inc. was founded in 1987 by Nitin (Nick) Kumbhani as Kumbhani & Company initially offering its large cap growth strategy.
- In 2000, the firm brought on additional members to the investment team, changed its name to Apex Capital Management, Inc., and launched the Apex SMID Growth strategy.
- Mr. Kumbhani is the majority owner of the firm, and the three portfolio managers and Director of Marketing are minority owners.

Business Plan

- Apex manages products across the capitalization spectrum. This includes all cap, large cap, mid cap, small/mid cap, small cap and balanced growth products. Most of the assets are in the SMID Growth and small cap growth strategies. The firm's most recent product addition has been an international ADR strategy at the request of an institutional client. There are no current plans for any other new strategies.
- To expand distribution, the firm launched a small/mid cap growth mutual fund in 2012 and began sub-advising a small cap growth mutual fund in 2013 for Touchstone Advisors.
- The firm's goal is to leverage existing resources to grow assets, and carefully invest in resources including people, technology, and other services as needed.

Legal/Compliance

- There are no legal, regulatory, or civil items noted on the firm's ADV.
- The SEC conducted a routine review in February 2005. There were no material findings. Apex has worked to address any suggested areas of improvement.
- According to Apex, there is no outstanding litigation against the firm.

Summary of Business Structure Opinion

- CG IAR views favorably that the firm is independent and key individuals have ownership. We believe the investment team has a vested interest in the product's success.
- Apex has seen growth in assets which has enhanced firm stability. The firm has added to its operational infrastructure and plans to continue this build out with future growth. For example, the firm hired a dedicated trader to relieve the PMs of this function.
- While CG IAR prefers the separation of investment and compliance functions, PM/CCO Mike Kalbfleisch is assisted by other members of the team and a third party provider. The firm formalized their relationship with National Regulatory Services for out-sourced compliance services.
- The firm has been careful about additions to the investment team, and states they opportunistically look for talented individuals that may fit within their organization on an ongoing basis. CG IAR views positively the firm's focus on preserving the culture of the firm with growth.

Other Key Factors

Incentives/Alignment of Interests

- Compensation consists of a salary and bonus, which is based on the firm's profitability.
- All portfolio managers have equity ownership.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Nitin Kumbhani	69%
Jan Terbrueggen	11%
Michael Kalbfleisch	10%
Sunil Reddy	5%
Mark Harrell	5%
Publicly Traded	**Ticker Symbol**
No	

Source: Apex

Assets Under Management ($ Millions)

Year	Firm*	Strategy*
2Q14	$4,239	$3,976
2013	$3,934	$3,278
2012	$1,999	$1,643
2011	$1,207	$869
2010	$1,000	$696
2009	$582	$237
2008	$366	$94

Source: Apex
**inclusive of all investment vehicles as well as assets under advisement or model-driven assets*

OPINION OVERVIEW DESCRIPTION

Investment Capabilities - Represents CG IAR's opinion of the investment manager's investment capabilities with respect to the product under evaluation. This section covers the areas of quality of investment professionals, portfolio management, research and process execution. As these areas are not mutually exclusive, but rather interrelated, it is important to render a cohesive opinion on these areas of an organization. This section has three potential opinion outcomes: Above Average, Average and Needs Improvement. Above Average conveys that CG IAR has a high degree of confidence and conviction in a manager's investment capabilities. An opinion of Average denotes that, while CG IAR has a generally favorable view, it may have some concerns about the investment manager's investment capabilities. An opinion rating of Needs Improvement generally indicates that CG IAR has material concerns about the investment manager's overall investment capabilities. For example, this could be the result of sizable personnel departures, poor execution of stated investment discipline or a limited research effort.

Business Evaluation - Represents CG IAR's opinion of the state of the investment manager's overall business condition. This area reviews items such as ownership structure, trends in assets under management, legal and/or compliance issues, investment professional incentives and trading policies. This area has three potential opinion outcomes: Above Average, Average and Needs Improvement. Above Average conveys that CG IAR has a high degree of confidence and conviction in a manager's overall business structure and believes that there are limited to no material issues. An opinion of Average denotes that, while CG IAR has a generally favorable view, it may have some concerns about the investment manager's business structure. An opinion rating of Needs Improvement generally indicates that CG IAR has material concerns about the investment manager's overall business structure. For example, this could be the result of what we believe to be material legal and/or compliance issues, material asset loss, ownership issues or ineffective incentives for the investment professionals.

Short-Term & Long-Term Performance Analysis - The opinion for performance is broken into two components: 1) Short-Term Performance Analysis represents CG IAR's opinion of the investment product's performance typically over a time period of the trailing three years or less, 2) Long-Term Performance Analysis represents CG IAR's opinion of the investment product's performance typically over a time period of more than the trailing three years. These areas have three potential opinion outcomes: Above Expectations, In-Line and Below Expectations. Above Expectations conveys that CG IAR believes the investment product has performed better than expected given investment biases and market conditions, while an opinion of In-Line denotes that CG IAR believes the investment product has performed as expected given investment biases and market conditions. A rating of In-Line should not be interpreted negatively, but rather that the investment product is performing as expected. An opinion rating of Below Expectations generally indicates that CG IAR has concerns about the investment product's overall investment performance given our knowledge of the investment manager's process and the overall market conditions.

Track Record Reliability - Represents CG IAR's opinion of the overall integrity of the investment performance displayed to clients or potential clients. This area takes into consideration items such as portfolio manager tenure on a respective strategy, construction of the performance composite, and consistency in the execution of a stated investment process. This area has three potential opinion outcomes: High, Moderate and Low. High conveys that CG IAR believes the investment performance track record has a high degree of integrity and is representative of what investors could expect over time, while an opinion of Moderate denotes that CG IAR may have some concerns as it relates to the historical performance track record. An opinion rating of Low generally indicates that CG IAR has material concerns about the investment product's historical performance track record. For example, if an investment product has had a long standing portfolio manager that has delivered solid performance results over the last five years relative to a benchmark and the portfolio manager is replaced by a new portfolio manager that instills a new investment process, CG IAR may consider the historical performance track record to be non-representative of the new investment discipline.

Expected Benchmark Sensitivity - Represents CG IAR's opinion of how closely an investment product's performance is expected to "track" the investment performance of CG IAR's designated performance benchmark for a particular investment product. This area evaluates the historical investment performance tracking of a given investment product relative to a respective benchmark as well as the investment manager's current approach to active portfolio management. In evaluating benchmark sensitivity, CG will use relevant statistical measures such as tracking error and R-Squared as well as portfolio construction guidelines such as economic sector constraints and benchmark relative position sizing. This area has three potential opinion outcomes: High, Moderate and Low. In CG IAR's opinion, High conveys that a product is anticipated to be managed with a high degree of emphasis on its benchmark with relatively tight control over the product's active weights relative to that benchmark. High benchmark sensitivity does not mean wide deviations from the benchmark will not happen, but that the investment manager seeks to reduce them. Moderate conveys that a product's management is anticipated to have some amount of benchmark sensitivity, but is able to make meaningful, but controlled, allocations away from a benchmark. Low denotes that a product places little to no emphasis on its assigned benchmark. Performance from a month-to-month and year-to-year basis may deviate significantly from its benchmark.

Expected Portfolio Turnover - Represents CG IAR's opinion of how actively the portfolio is managed from the perspective of trading activity (purchases, sales, additions, trims, etc.). We do not view these ratings positively or negatively, but render an opinion for this category so Financial Advisors, Private Wealth Advisors, Private Bankers and clients have some idea as to the overall level of activity that takes place in a given portfolio. High activity may result in a portfolio that is less tax-efficient for taxable clients, whereas Low activity may result in a more tax efficient portfolio for taxable clients. This area has three potential opinion outcomes: High, Moderate and Low. In CG IAR's opinion, High conveys an investment product that is likely to have more than 90% turnover on an annual basis, while Moderate indicates expected annual portfolio turnover in the range of 30% - 90% and Low indicates expected annual portfolio turnover of less than 30%.

DEFINITIONS

Sub-Styles: Subjective classifications designed to assist with manager selection and performance evaluation based on Consulting Group Investment Advisor Research (“CG IAR”) understanding of a manager’s long-term investment philosophy and portfolio structuring biases and techniques. At points in time managers may display attributes of other sub-style classifications, and these classifications may change due to changes in the capital markets, evolution of performance benchmarks, industry trends, or changes involving a manager’s personnel or process.

Traditional Growth: Generally invest in a mix of lower and higher growth companies, portfolios and performance likely to be more highly correlated to the respective growth benchmark than peers and may demonstrate the flexibility at times to take on characteristics of more Conservative or Aggressive growth peers.

Russell 2500 Growth - Russell 2500 Growth Index measures the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of “co-movement” between portfolio returns and benchmark returns. The closer the portfolio’s R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio’s rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio’s returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio’s return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio’s returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

IMPORTANT DISCLOSURES

Report for Use Only in Investment Advisory Programs
This report is only to be used in Morgan Stanley Wealth Management investment advisory programs and not in connection with brokerage accounts.

CG IAR Services Only Apply to Certain Investment Advisory Programs
CG IAR evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Wealth Management’s investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any CG IAR status changes even though it may give notice to clients in other programs.

Focus List, Approved List and Tactical Opportunities List; Watch Policy
CG IAR uses two methods to evaluate investment products in applicable advisory programs: Opinion Research (and investment products meeting this research standard are described as being on the Focus List) and Access Research (and investment products meeting this research standard are described as being on the Approved List). In general, Opinion Research entails a more thorough evaluation of an investment product than Access Research. Sometimes an investment product may be evaluated using the Opinion Research process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. CG IAR may also determine that an investment product no longer meets the criteria under either research process and will no longer be recommended in investment advisory programs (in which case the investment product is given a “Not Approved” status).

CG IAR has a ‘Watch” policy and may describe a Focus List or Approved List investment product as being on “Watch” if CG IAR identifies specific areas that (a) merit further evaluation by CG IAR and (b) may, but are not certain to, result in the investment product becoming “Not Approved.” The Watch period depends on the length of time needed for CG IAR to conduct its evaluation and for the investment manager or fund to address any concerns. CG IAR may, but is not obligated to, note the Watch status in this report with a “W” or “Watch” next to the “Status” on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a paper entitled “Manager Research and Selection: A Disciplined Process.”

No Obligation to Update
Morgan Stanley Wealth Management has no obligation to update you when any information or opinion in this report changes.

Strategy May Be Available as a Separately Managed Account or Mutual Fund
Strategies are sometimes available in Morgan Stanley Wealth Management investment advisory programs both in the form of a separately managed account (“SMA”) and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor or Private Wealth Advisor can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program.

Consider Your Own Investment Needs
This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Performance and Other Portfolio Information
General
Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

Benchmark index
Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment (such as with an investment manager or in a fund) 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 product.

Other data
Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings
Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data
Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

Asset Class and Other Risks
Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

Nondiversification: For 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.

IPO securities: Investment in initial public offerings (IPO) exposes the portfolio to additional risks associated with companies that have little operating history as public companies, as well as to the risks inherent in those sectors of the market where these new issuers operate.

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.

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.

No Tax Advice
Morgan Stanley Wealth Management and its affiliates do not render advice on tax and tax accounting matters to clients. This material was not intended or written to be used, and it cannot be used or relied upon by any recipient, for any purpose, including the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

Please consult your personal tax and/or legal advisor to learn about any potential tax or other implications that may result from acting on a particular recommendation.

Conflicts of Interest
CG IAR's goal is to provide professional, objective evaluations in support of the Morgan Stanley Wealth Management investment advisory programs. We have policies and procedures to help us meet this goal. However, our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by CG IAR come from a variety of sources, including our Morgan Stanley Wealth Management Financial Advisors and their direct or indirect managers, and other business persons within Morgan Stanley Wealth Management or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, Morgan Stanley Wealth Management or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds. For example, a Financial Advisor may suggest that CG IAR evaluates an investment manager or fund in which a portion of his or her clients' assets are already invested. While such a recommendation is permissible, CG IAR is responsible for the opinions expressed by CG IAR. See the conflicts of interest section in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management for a discussion of other types of conflicts that may be relevant to CG IAR's evaluation of managers and funds. In addition, Morgan Stanley Wealth Management, MS&Co., managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts, and managers in various advisory programs. Morgan Stanley Wealth Management, managers, MS&Co., and their affiliates receive compensation and fees in connection with these services. Morgan Stanley Wealth Management believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account.

WEALTH MANAGEMENT

Morgan Stanley

CONSULTING GROUP INVESTMENT ADVISOR RESEARCH

AUGUST 8, 2014

Apex SMID Growth

FOCUS LIST RESEARCH REPORT

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STRATEGY DETAILS

INVESTMENT STYLE:	*Small/Mid Cap Growth*
EQUITY SUB-STYLE:	*Traditional Growth*
BENCHMARK:	*Russell 2500 Growth Index*
CG IAR RESEARCH STATUS:	*Focus List*
PRODUCT TYPE:	*Separately Managed Account*

www.apexcm.com

STRATEGY DESCRIPTION

The Apex SMID Growth strategy seeks to invest in small and mid cap stocks with strong growth characteristics and reasonable valuations that are within sectors and industries that the team believes are poised to benefit from the current global economic environment. The manager uses both top-down thematic and macro analysis combined with bottom-up research to build portfolios.

Summary of Opinion:

- CG IAR (Consulting Group Investment Advisor Research) placed the Apex SMID Growth strategy on the Focus List given our high opinion of the firm, team, and investment process.
- Apex Capital Management Inc. (Apex) is a small investment manager focused on growth investing. The firm is independent and the key members of the organization have an ownership stake, which CG IAR believes translates into an investment team that is focused on the success of the firm and strategies.
- CG IAR has a favorable view of the team's dynamic process and collaborative approach, which draws upon the experience and diverse talents of the investment professionals. Additionally, the investment team that built the successful track record has experienced no turnover.
- The investment approach incorporates macroeconomic, thematic, and bottom-up fundamental research. The team looks to build portfolios that consist of "stable growth" and "emerging growth" companies in an effort to deliver excess returns while managing risk. This approach has led to strong risk-adjusted returns over time.
- The portfolio will own 50-75 stocks with a 5% position maximum. Portfolio turnover during the past 5 years has averaged around 50% (40% in 2013).
- The 5-member investment team manages 6 products, including the Apex SMID Growth strategy, which is the firm's flagship product at over 80% of total firm AUM. CG IAR has some concerns surrounding personnel resources and product concentration risk, given the product's growth in AUM.

Focus List		Snapshot				
Investment Capabilities	**Business Evaluation**	**Short-Term Performance Analysis (≤ 3Yrs)**	**Long-Term Performance Analysis (> 3 Yrs)**	**Track Record Reliability**	**Expected Benchmark Sensitivity**	**Expected Portfolio Turnover**
Above Average	**Above Average**	Above Expectations	**Above Expectations**	**High**	High	High
Average	Average	**In-Line**	In-Line	Moderate	Moderate	**Moderate**
Needs Improvement	Needs Improvement	Below Expectations	Below Expectations	Low	**Low**	Low

See Opinion Description at the end of this report.

Positive Attributes

- An independent, employee owned firm.
- The success of the firm and employees is directly tied to the success of the strategies.
- A dynamic process and collaborative approach that draws upon the expertise of all investment professionals.
- The investment team that built the successful track record has experienced no turnover.
- Compelling relative and risk-adjusted performance over time.

Points to Consider

- The process combines top-down global thematic and macroeconomic components with bottom-up fundamental company analysis.
- The manager looks to construct the portfolio with "stable growth" and "emerging growth" companies in an effort balance risk. The portfolio tends to be more heavily weighted to the "stable growth" category, which have a conservative-to-traditional growth profile and could alternatively be named "established growth" companies. The "emerging growth" companies tend to skew towards the traditional-to-aggressive end of the style spectrum.
- The portfolio may be weighted more heavily in small caps or mid caps relative to the benchmark at times, which may skew the strategy's market capitalization profile.
- The top-down components may lead to higher tracking error and larger sector over/under-weightings relative to the benchmark.

Areas of Concern

- The firm's expansion of product offerings has the potential to stretch resources. Apex states they will add to staff as needed and are adequately resourced.
- The firm's asset base is concentrated in the SMID Growth product, which could pose a risk if the strategy experienced a period of under-performance leading to a loss of investors.
- With substantial growth in the Smid and Small Cap Growth strategies, CG IAR is monitoring the portfolio for "cap creep" (an increase in market capitalization levels) and "name creep" (an expansion in the number of holdings range) as a means of absorbing additional assets as estimated capacity was revised from $3 billion to $4.5 billion.

Performance Expectations

- CG IAR believes that the strategy has the potential to out-perform in different market environments owing to the flexibility of the investment process. However, due to the team's valuation discipline, the portfolio may not keep pace in a market where excessive valuations are rewarded.
- Apex's "emerging growth" securities may offer significant upside potential although with greater risk. However, the portfolio's balance between "stable growth" and "emerging growth" companies should dampen overall volatility.

Performance Opinion

- The portfolio performed at the upper-end of expectations over the trailing 3-year annualized period ending 6/30/2014. Although the strategy trailed the index in 2013, Apex out-performed thus far in 2014 and posted admirable results in 2012, despite struggling in 2011 (an environment generally more conducive to conservative growth managers).
- Longer-term performance is above expectations. Apex outperformed its benchmark over the trailing 5, 7, and 10-year annualized periods ending 2Q2014 by a sizable margin.

News Summary

- 2Q13 – Apex named as sub-advisor on the Touchstone Small Cap Growth Fund.
- 1Q12 – Apex SMID Growth research status changed from Approved List to Focus List.
- 4Q08 – Apex hired an additional marketing professional.
- 2Q08 – Sunil Reddy joins Apex as a Portfolio Manager.
- 2Q07 – Apex hires a Director of Marketing.

Additional Analyst Comments

- The manager's market capitalization purchase range is between $150 million to $10 billion with a sweet spot of $500 million to $5 billion. They will let successful positions appreciate up to approximately $13 billion at-market. While the manager stays within the small and mid cap segment, the portfolio may be more heavily weighted in smaller caps or mid caps at times.
- The holdings range may breach the upper limit in instances where the manager wants to invest in higher risk areas of the market (i.e. biotech) and takes a "basket approach", holding more positions at reduced weights.
- Since 2013, the team structure shifted from a generalist format to specific sector coverage that plays to the strengths of the investment professionals. The major growth sectors have dual-coverage (technology, health care, and consumer discretionary). Portfolio managers also serve in an analyst capacity.
- In the event that CIO Nitin Kumbhani is incapacitated, analyst Kamal Kumbhani (his wife) and PM Mike Kalbfleisch would decide who would succeed Nitin as CIO. In terms of eventual ownership succession, Mrs. Kumbhani would also assume her husband's ownership stake. CG IAR is comfortable that the team has the depth of personnel to head the firm in terms of business and investment leadership, however additional hires would likely be required to absorb research coverage responsibilities.
- Apex has the ability to purchase Exchange Traded Funds (ETFs). This is a rare occurrence and has been executed once in the history of the strategy. In the first quarter of 2009, as part of the manager's macroeconomic view, the manager wanted to invest in financial banks, but did not want to take the stock specific risk. Therefore, Apex purchased an approximate 2% position in a small cap regional bank ETF.
- According to Apex, the typical portfolio overlap between the Small Cap Growth and SMID Growth strategies has been approximately 30%.
- Economic Sector Constraints:

Benchmark weight	Apex Minimum	Apex Maximum
Greater than 20%	Half Weight	40%
10-20%	0%	Double Weight
Less than 10%	0%	Greater of double weight +5% or 15%

Additional News Summary

- None.

Portfolio Traits

Equity	
Range of Holdings	50-75
Maximum Position Size	5% Maximum
Econ Sector Constraints	See Additional Comments
Tracking Error Target	No Target
Typical Annual Turnover	70%-125%. Turnover tends to be higher at market inflection points. In recent years, it has averaged 50% per annum.
Invests in ADRs	15% Maximum
Invests in ETFs	Yes, but rare
Invests in Derivatives	No
Invests in IPOs	No
Liquidity Constraints	Typically 5 days trading volume.
Maximum Cash	5%
Typical Cash Position	0%-5%
Est. Product Capacity	$4.5 billion
Source: Apex	

Investment Capabilities Overview

Portfolio Management Team

- The investment team consists of four portfolio managers and one analyst. The portfolio managers also have analyst coverage responsibilities.
- Nitin Kumbhani serves as the firm's CIO. Mr. Kumbhani founded the firm in 1987 after selling his ATM technology software company.
- In 2000, the firm added PMs Mike Kalbfleisch and Jan Terbrueggen who come from investment backgrounds with commonality at John Nuveen & Co. Messer's Kalbfleisch and Terbrueggen both have nearly 30-years of investment experience.
- The latest addition to the investment team was PM Sunil Reddy in 2008, who has a background in fixed income and covers the technology and financial sectors. He has nearly 25-years of investment experience.
- Analyst Kamal Kumbhani joined the firm in 1994 and has over 20-years of investment experience. She mainly provides coverage in the health care sector.

Investment Philosophy & Process

- Apex focuses on identifying companies with strong growth characteristics and reasonable valuations that are within sectors and industries that the team believes are poised to benefit from the current global economic environment.
- New ideas are generated from the firm's top-down global themes and quantitative screening. Global secular themes are continuously established to identify growth opportunities that may offer investment tailwinds.
- The firm screens for key characteristics considered in analyzing each type of company. This is then followed by fundamental analysis with the goal of confirming sustainable growth characteristics.
- Apex also seeks companies with a global strategy & position, management quality, a catalyst that confirms the sustainability of growth, and reasonable valuations relative to history and peers.
- Apex seeks to balance the portfolio with "stable growth" and "emerging growth" companies. The range in allocation between stable growth and emerging growth companies is a function of the investment team's overall view of the environment (risk) and their bottom-up, fundamental research. On average, the portfolio is comprised of a 70/30 mix of stable/emerging growth companies, however a more offensive posture would be a 60/40 split, or a more defensive posture at 80/20.
  - Key characteristics considered for stable growth companies include; earnings growth acceleration, consistency in earnings growth, profitability, cash flow generation, financial leverage, and improving operating efficiency.
  - Factors evaluated for emerging growth companies include; revenue growth acceleration, positive earnings revisions, unique product niches, a growing addressable market, and whether the market underestimates its potential.
- Portfolios are constructed by evaluating the current economic and investment environment to determine appropriate sector and security weights.

Summary of Investment Capabilities Opinion

- CG IAR has a favorable opinion of the team based upon their experience and the diverse talents that each member brings to a dynamic investment process. For example, Mr. Terbrueggen has experience in top-down economic analysis, which helps to shape the firm's macro views and themes. Both Messrs Kumbhani and Reddy have backgrounds in the technology industry, and Mr. Reddy has fixed income investment experience. Mr. Kalbfleisch has an accounting background. Ms. Kumbhani has focused on biotechnology and health care since 1994, with a degree in chemistry, physics, and math.
- All members of the investment team contribute to all aspects of the process. Although Mr. Kumbhani has ultimate veto authority, CG IAR views this as a team approach with all individuals collectively contributing to the added value overtime.
- While an investment idea does not have to meet a theme, CG IAR believes the team's focus on ideas backed by secular growth opportunities has been a key component to their success.
- While CG IAR believes the team's focus and execution on macro, thematic, and bottom-up research has historically led to consistent relative returns, factor bets also have the potential for amplifying the downside if the market views a given theme unfavorably.

Other Key Items

Decision-Making

- Apex operates as an investment committee and all decisions are made on a consensus basis. Nitin Kumbhani is the CIO and has veto authority, which according to Apex is rarely used in practice.

Sell Process

- Stocks are reviewed for sale for valuation reasons, fundamental deterioration, for a better idea, or in adherence to portfolio construction parameters.
- Stock performance is also measured relative to the index over a trailing four-quarter period and is reviewed if it falls to the bottom two deciles in screening.

Track Record Reliability

- CG IAR views the track record reliability as high given that four of five team members have been on the strategy for the duration of its track record.
- PM Sunil Reddy was the most recent addition to the investment team in 2Q 2008.
- The composite had low assets and accounts from 2000-2006. The product began gaining traction in the 2007-2008 period and has since experienced low dispersion.
- The strategy was incepted 04/01/2000.

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Nitin Kumbhani	Chief Investment Officer/PM	Consumer Discretionary, Tech, Health Care			1987	1987	2000
Jan Terbrueggen	Portfolio Manager	Energy, Materials	●	Xavier University	1985	2000	2000
Mike Kalbfleisch, CPA	Portfolio Manager, CCO	Industrials, Consumer Staples	●		1985	2000	2000
Sunil Reddy	Portfolio Manager	Consumer Discretionary, Tech, Financials	●	Case Western Reserve University	1987	2008	2008
Kamal Kumbhani	Research Analyst	Health Care, Biotechnology		University of Madras	1987	1994	2000

Source: Apex

Other Key Professionals

Investment Team Overview	Position	Area of Responsibility	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Mark Harrell	Director of Marketing	Business Development			1987	2007	N/A
James Brown	Director of Operations	Operations and Trading		Wright State University	1995	2005	N/A

Source: Apex

Primary Functions of Key Professionals

Name	Security Selection	Security Research	Portfolio Construction	Trading	Client Service	Business Management
Nitin Kumbhani	●	●	●			●
Jan Terbrueggen	●	●	●	●		
Mike Kalbfleisch	●	●	●	●		●
Sunil Reddy	●	●	●			
Kamal Kumbhani		●				
Mark Harrell					●	●
James Brown				●		●

Source: Apex

Business Structure Overview

History/Ownership

- Apex Capital Management, Inc. was founded in 1987 by Nitin (Nick) Kumbhani as Kumbhani & Company initially offering its large cap growth strategy.
- In 2000, the firm brought on additional members to the investment team, changed its name to Apex Capital Management, Inc., and launched the Apex SMID Growth strategy.
- Mr. Kumbhani is the majority owner of the firm, and the three portfolio managers and Director of Marketing are minority owners.

Business Plan

- Apex manages products across the capitalization spectrum. This includes all cap, large cap, mid cap, small/mid cap, small cap and balanced growth products. Most of the assets are in the SMID Growth and small cap growth strategies. The firm's most recent product addition has been an international ADR strategy at the request of an institutional client. There are no current plans for any other new strategies.
- To expand distribution, the firm launched a small/mid cap growth mutual fund in 2012 and began sub-advising a small cap growth mutual fund in 2013 for Touchstone Advisors.
- The firm's goal is to leverage existing resources to grow assets, and carefully invest in resources including people, technology, and other services as needed.

Legal/Compliance

- There are no legal, regulatory, or civil items noted on the firm's ADV.
- The SEC conducted a routine review in February 2005. There were no material findings. Apex has worked to address any suggested areas of improvement.
- According to Apex, there is no outstanding litigation against the firm.

Summary of Business Structure Opinion

- CG IAR views favorably that the firm is independent and key individuals have ownership. We believe the investment team has a vested interest in the product's success.
- Apex has seen growth in assets which has enhanced firm stability. The firm has added to its operational infrastructure and plans to continue this build out with future growth. For example, the firm hired a dedicated trader to relieve the PMs of this function.
- While CG IAR prefers the separation of investment and compliance functions, PM/CCO Mike Kalbfleisch is assisted by other members of the team and a third party provider. The firm formalized their relationship with National Regulatory Services for out-sourced compliance services.
- The firm has been careful about additions to the investment team, and states they opportunistically look for talented individuals that may fit within their organization on an ongoing basis. CG IAR views positively the firm's focus on preserving the culture of the firm with growth.

Other Key Factors

Incentives/Alignment of Interests

- Compensation consists of a salary and bonus, which is based on the firm's profitability.
- All portfolio managers have equity ownership.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Nitin Kumbhani	69%
Jan Terbrueggen	11%
Michael Kalbfleisch	10%
Sunil Reddy	5%
Mark Harrell	5%
Publicly Traded	**Ticker Symbol**
No	

Source: Apex

Assets Under Management ($ Millions)

Year	Firm*	Strategy*
2Q14	$4,239	$3,976
2013	$3,934	$3,278
2012	$1,999	$1,643
2011	$1,207	$869
2010	$1,000	$696
2009	$582	$237
2008	$366	$94

Source: Apex
**inclusive of all investment vehicles as well as assets under advisement or model-driven assets*

OPINION OVERVIEW DESCRIPTION

Investment Capabilities - Represents CG IAR's opinion of the investment manager's investment capabilities with respect to the product under evaluation. This section covers the areas of quality of investment professionals, portfolio management, research and process execution. As these areas are not mutually exclusive, but rather interrelated, it is important to render a cohesive opinion on these areas of an organization. This section has three potential opinion outcomes: Above Average, Average and Needs Improvement. Above Average conveys that CG IAR has a high degree of confidence and conviction in a manager's investment capabilities. An opinion of Average denotes that, while CG IAR has a generally favorable view, it may have some concerns about the investment manager's investment capabilities. An opinion rating of Needs Improvement generally indicates that CG IAR has material concerns about the investment manager's overall investment capabilities. For example, this could be the result of sizable personnel departures, poor execution of stated investment discipline or a limited research effort.

Business Evaluation - Represents CG IAR's opinion of the state of the investment manager's overall business condition. This area reviews items such as ownership structure, trends in assets under management, legal and/or compliance issues, investment professional incentives and trading policies. This area has three potential opinion outcomes: Above Average, Average and Needs Improvement. Above Average conveys that CG IAR has a high degree of confidence and conviction in a manager's overall business structure and believes that there are limited to no material issues. An opinion of Average denotes that, while CG IAR has a generally favorable view, it may have some concerns about the investment manager's business structure. An opinion rating of Needs Improvement generally indicates that CG IAR has material concerns about the investment manager's overall business structure. For example, this could be the result of what we believe to be material legal and/or compliance issues, material asset loss, ownership issues or ineffective incentives for the investment professionals.

Short-Term & Long-Term Performance Analysis - The opinion for performance is broken into two components: 1) Short-Term Performance Analysis represents CG IAR's opinion of the investment product's performance typically over a time period of the trailing three years or less, 2) Long-Term Performance Analysis represents CG IAR's opinion of the investment product's performance typically over a time period of more than the trailing three years. These areas have three potential opinion outcomes: Above Expectations, In-Line and Below Expectations. Above Expectations conveys that CG IAR believes the investment product has performed better than expected given investment biases and market conditions, while an opinion of In-Line denotes that CG IAR believes the investment product has performed as expected given investment biases and market conditions. A rating of In-Line should not be interpreted negatively, but rather that the investment product is performing as expected. An opinion rating of Below Expectations generally indicates that CG IAR has concerns about the investment product's overall investment performance given our knowledge of the investment manager's process and the overall market conditions.

Track Record Reliability - Represents CG IAR's opinion of the overall integrity of the investment performance displayed to clients or potential clients. This area takes into consideration items such as portfolio manager tenure on a respective strategy, construction of the performance composite, and consistency in the execution of a stated investment process. This area has three potential opinion outcomes: High, Moderate and Low. High conveys that CG IAR believes the investment performance track record has a high degree of integrity and is representative of what investors could expect over time, while an opinion of Moderate denotes that CG IAR may have some concerns as it relates to the historical performance track record. An opinion rating of Low generally indicates that CG IAR has material concerns about the investment product's historical performance track record. For example, if an investment product has had a long standing portfolio manager that has delivered solid performance results over the last five years relative to a benchmark and the portfolio manager is replaced by a new portfolio manager that instills a new investment process, CG IAR may consider the historical performance track record to be non-representative of the new investment discipline.

Expected Benchmark Sensitivity - Represents CG IAR's opinion of how closely an investment product's performance is expected to "track" the investment performance of CG IAR's designated performance benchmark for a particular investment product. This area evaluates the historical investment performance tracking of a given investment product relative to a respective benchmark as well as the investment manager's current approach to active portfolio management. In evaluating benchmark sensitivity, CG will use relevant statistical measures such as tracking error and R-Squared as well as portfolio construction guidelines such as economic sector constraints and benchmark relative position sizing. This area has three potential opinion outcomes: High, Moderate and Low. In CG IAR's opinion, High conveys that a product is anticipated to be managed with a high degree of emphasis on its benchmark with relatively tight control over the product's active weights relative to that benchmark. High benchmark sensitivity does not mean wide deviations from the benchmark will not happen, but that the investment manager seeks to reduce them. Moderate conveys that a product's management is anticipated to have some amount of benchmark sensitivity, but is able to make meaningful, but controlled, allocations away from a benchmark. Low denotes that a product places little to no emphasis on its assigned benchmark. Performance from a month-to-month and year-to-year basis may deviate significantly from its benchmark.

Expected Portfolio Turnover - Represents CG IAR's opinion of how actively the portfolio is managed from the perspective of trading activity (purchases, sales, additions, trims, etc.). We do not view these ratings positively or negatively, but render an opinion for this category so Financial Advisors, Private Wealth Advisors, Private Bankers and clients have some idea as to the overall level of activity that takes place in a given portfolio. High activity may result in a portfolio that is less tax-efficient for taxable clients, whereas Low activity may result in a more tax efficient portfolio for taxable clients. This area has three potential opinion outcomes: High, Moderate and Low. In CG IAR's opinion, High conveys an investment product that is likely to have more than 90% turnover on an annual basis, while Moderate indicates expected annual portfolio turnover in the range of 30% - 90% and Low indicates expected annual portfolio turnover of less than 30%.

DEFINITIONS

Sub-Styles: Subjective classifications designed to assist with manager selection and performance evaluation based on Consulting Group Investment Advisor Research ("CG IAR") understanding of a manager's long-term investment philosophy and portfolio structuring biases and techniques. At points in time managers may display attributes of other sub-style classifications, and these classifications may change due to changes in the capital markets, evolution of performance benchmarks, industry trends, or changes involving a manager's personnel or process.

Traditional Growth: Generally invest in a mix of lower and higher growth companies, portfolios and performance likely to be more highly correlated to the respective growth benchmark than peers and may demonstrate the flexibility at times to take on characteristics of more Conservative or Aggressive growth peers.

Russell 2500 Growth - Russell 2500 Growth Index measures the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

IMPORTANT DISCLOSURES

Report for Use Only in Investment Advisory Programs
This report is only to be used in Morgan Stanley Wealth Management investment advisory programs and not in connection with brokerage accounts.

CG IAR Services Only Apply to Certain Investment Advisory Programs
CG IAR evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Wealth Management's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any CG IAR status changes even though it may give notice to clients in other programs.

Focus List, Approved List and Tactical Opportunities List; Watch Policy
CG IAR uses two methods to evaluate investment products in applicable advisory programs: Opinion Research (and investment products meeting this research standard are described as being on the Focus List) and Access Research (and investment products meeting this research standard are described as being on the Approved List). In general, Opinion Research entails a more thorough evaluation of an investment product than Access Research. Sometimes an investment product may be evaluated using the Opinion Research process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. CG IAR may also determine that an investment product no longer meets the criteria under either research process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

CG IAR has a 'Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if CG IAR identifies specific areas that (a) merit further evaluation by CG IAR and (b) may, but are not certain to, result in the investment product becoming "Not Approved." The Watch period depends on the length of time needed for CG IAR to conduct its evaluation and for the investment manager or fund to address any concerns. CG IAR may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" next to the "Status" on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a paper entitled "Manager Research and Selection: A Disciplined Process."

No Obligation to Update
Morgan Stanley Wealth Management has no obligation to update you when any information or opinion in this report changes.

Strategy May Be Available as a Separately Managed Account or Mutual Fund
Strategies are sometimes available in Morgan Stanley Wealth Management investment advisory programs both in the form of a separately managed account ("SMA") and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor or Private Wealth Advisor can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program.

Consider Your Own Investment Needs
This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Performance and Other Portfolio Information
General
Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

Benchmark index
Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment (such as with an investment manager or in a fund) 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 product.

Other data
Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings
Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data
Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

Asset Class and Other Risks
Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

Nondiversification: For 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.

IPO securities: Investment in initial public offerings (IPO) exposes the portfolio to additional risks associated with companies that have little operating history as public companies, as well as to the risks inherent in those sectors of the market where these new issuers operate.

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.

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.

No Tax Advice
Morgan Stanley Wealth Management and its affiliates do not render advice on tax and tax accounting matters to clients. This material was not intended or written to be used, and it cannot be used or relied upon by any recipient, for any purpose, including the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

Please consult your personal tax and/or legal advisor to learn about any potential tax or other implications that may result from acting on a particular recommendation.

Conflicts of Interest

CG IAR's goal is to provide professional, objective evaluations in support of the Morgan Stanley Wealth Management investment advisory programs. We have policies and procedures to help us meet this goal. However, our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by CG IAR come from a variety of sources, including our Morgan Stanley Wealth Management Financial Advisors and their direct or indirect managers, and other business persons within Morgan Stanley Wealth Management or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, Morgan Stanley Wealth Management or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds. For example, a Financial Advisor may suggest that CG IAR evaluates an investment manager or fund in which a portion of his or her clients' assets are already invested. While such a recommendation is permissible, CG IAR is responsible for the opinions expressed by CG IAR. See the conflicts of interest section in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management for a discussion of other types of conflicts that may be relevant to CG IAR's evaluation of managers and funds. In addition, Morgan Stanley Wealth Management, MS&Co., managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts, and managers in various advisory programs. Morgan Stanley Wealth Management, managers, MS&Co., and their affiliates receive compensation and fees in connection with these services. Morgan Stanley Wealth Management believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account.

Oak Ridge Investments Small/Mid Cap Growth

APPROVED LIST RESEARCH REPORT

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Summary of Opinion:

- The portfolio may be most appropriate for investors seeking a low turnover, portfolio of higher-quality growth stocks. Consulting Group Investment Advisor Research (CG IAR) has a positive view of the investment capabilities of Oak Ridge based on the investment team's knowledge of the portfolio holdings and the consistent implementation of this strategy. In addition, David Klaskin has been the lead PM on the Small/Mid Cap Growth strategy since its inception in 1990.
- Although Oak Ridge uses the Russell 2000 Growth Index as the benchmark for this strategy, CG IAR believes the Russell 2500 Growth Index is more appropriate.

STRATEGY DETAILS

INVESTMENT STYLE:	*Small/Mid Cap Growth*
BENCHMARK:	*Russell 2500 Growth Index*
CG IAR RESEARCH STATUS:	*Approved List*
PRODUCT TYPE:	*Separately Managed Account*

www.oakridgeinvest.com

STRATEGY DESCRIPTION

Oak Ridge believes that earnings growth is the primary motive of all businesses, and the principal determinant of long-term stock prices. Consequently, the team's effort is focused on understanding and exploiting the relationship between profitability and stock prices.

Positive Attributes

- The PMs have managed the same portfolio using this process since its inception in 1990.
- The investment process is considered to be a disciplined, reasonable method of generating investment ideas.
- The strategy has a low level of dispersion within the composite.
- The research reports that were reviewed were impressive based on the proprietary fundamental analysis of the companies.

Points to Consider

- The same investment team supports all of the products.
- The portfolio turnover is low relative to many other growth managers.

Areas of Concern

- The Small/Mid Growth strategy has underperformed the benchmark over the last 5 years (annualized) as of December 2013. Some of the underperformance was due to the focus on higher-quality stocks being out of favor, especially in 2009. However, the poor relative performance could lead to a decline in assets under management if it persists.
- There has been an increase in personnel turnover at Oak Ridge since 2012.

News Summary

- 2Q 2014 - Oak Ridge notified CG IAR that the firm will repurchase the 49% stake in Oak Ridge that is currently owned by Pioneer Investments. The transaction is expected to close in October 2014. In addition, Oak Ridge hired Philip Callahan as Head of Distribution and Marketing, and also added Robert Corman and Terry Quinn as Technology sector analysts.
- 1Q 2014 – Michael Roesler, the Technology analyst, resigned from Oak Ridge to pursue other opportunities. Other members of the investment team will assume Mr. Roesler's coverage until his replacement is found.
- 2Q 2013 – Michael Harrington is transitioning from his role as President of Oak Ridge to Vice Chairman. Mr. Harrington joined Oak Ridge in 2003 and has been primarily responsible for sales and marketing. Christopher Williams will succeed Mr. Harrington as President.
- 2Q 2013 – Kimberly Bernard, the Consumer analyst at Oak Ridge, resigned from the firm for personal reasons. She was replaced by Erika Maschmeyer, who joined the firm in June 2013.
- 2Q 2012 – Steven Slaughter was hired as the firm's health care analyst to replace Mr. Delany, who departed in 1Q 2012.
- 1Q 2012 – Dennis Scandrett, the Director of Research, and Dan Delany, the health care analyst, resigned from the firm. Rob McVicker was named the interim Director of Research. He was the firm's Director of Research prior to Mr. Scandrett.

Additional Comments

- Oak Ridge invests in stocks selling at a discount to their estimated future growth rates and the valuation screens are primarily based on an internally generated PEG (price-to-earnings-to-growth) ratio. The potential holdings in the All Cap Growth strategy have a maximum PEG ratio of 2.0 while the potential holdings in the Small/Mid Cap Growth strategy have a maximum PEG ratio of 1.5. According to Oak Ridge, the Small/Mid Cap Growth strategy uses a lower PEG ratio because there are a larger number of potential holdings in the investable universe for this product with low PEG ratios. To get a sufficient number of potential holdings in the other products, the firm had to increase the PEG ratio criteria to 2.0.
- Although Oak Ridge uses the Russell 2000 Growth Index as the benchmark for this strategy, CG IAR believes the Russell 2500 Growth Index is more appropriate.

Portfolio Traits

	Equity
Range of Holdings	40-60
Maximum Position Size	5%
Econ Sector Constraints	No more than 2x benchmark sector weight or 50% for larger sectors
Tracking Error Target	N/A
Typical Annual Turnover	20-50%
Invests in ADRs	Maximum 10%
Invests in ETFs	Only if requested by client or FA during tax loss selling.
Invests in Derivatives	No
Invests in IPOs	No
Liquidity Constraints	Market cap minimum of $250 million and minimum of $3 million in daily trade volume
Maximum Cash	10%
Typical Cash Position	5%
Est. Product Capacity	$3.3 billion

Source: Oak Ridge, CG IAR

Investment Capabilities Overview

Portfolio Management Team

- David Klaskin is a co-founder of Oak Ridge, the Chairman, Chief Investment Officer and the lead portfolio manager on the Large Cap Growth and Small/Mid products. He is also a co-PM on the All Cap Growth strategy.
- Robert McVicker is the lead portfolio manager on the All Cap Growth product and the co-PM on the Large Cap Growth and Small/Mid products.
- Mr. Klaskin and Mr. McVicker are largely responsible for developing the firm's growth philosophy and managing the firm's products.

Investment Philosophy & Process

- Oak Ridge believes that earnings growth is the primary motive of all businesses, and the principal determinant of long-term stock prices. Consequently, the team's effort is focused on understanding and exploiting the relationship between profitability and stock prices.
- Oak Ridge invests in stocks selling at a discount to their estimated future growth rates and the valuation screens are primarily based on an internally generated PEG (price-to-earnings-to-growth) ratio. The PEG ratio utilized by Oak Ridge is based on a company's one-year forward estimated price-to-earnings ratio and five-year forward internally computed estimated earnings growth rate. For this strategy, the firm typically looks to purchase a company with a PEG ratio less than 1.5, but may buy a security with a higher ratio if it believes the company may grow at an above-average rate.
- The process combines quantitative screening and bottom-up fundamental research to find companies that have sustainable earnings and attractive valuations relative to their future estimated earnings growth. The quantitative screens are based on growth and valuation.
- The growth screens are focused on consistent earnings growth history, earnings exceeding expectations and strong forecasted earnings growth. Oak Ridge tends to only invest in companies with a history of positive earnings growth and generally require one quarter of positive earnings growth before they purchase a stock, but may make an exception if they believe that the future earnings visibility is high.
- While the quantitative screens are a source for approximately 60% of the investment ideas, the investment team does get some potential investment ideas from other sources such as industry conferences and industry contacts.
- The investment team meets formally every week and selects a limited number of stocks for detailed investigation. The company must have strong business momentum, solid financials based on conservative accounting principles and strong management with a proven track record. The stocks are assigned to a member of the investment team based on workloads and expertise. The team member analyzes the company in order to understand its strategy, financial situation, competitive position, and industry dynamics.
- As part of the research process, the investment team writes a research report that includes a company description, the investment thesis, the pros and cons of investing in the company, and an analysis of the company fundamentals. According to Oak Ridge, they generally do not build earnings models from scratch, especially for mega-cap companies. They tend to tweak the sell-side analyst models.
- The position sizes depend on the volatility and liquidity of the stock. The position size for less liquid or more volatile stocks will tend to be less than 1%. The maximum position size is 5%, but the firm will make exceptions for larger names in the benchmark and allow a 100 bp active overweight.

Other Key Items

Decision Making

- During the weekly meetings, each analyst reviews their sectors and discusses potential new investment ideas. The investment team debates whether these stocks should be in the portfolio and the PMs make the investment decisions.

Sell Process

- Stocks are sold if the fundamentals deteriorate, the PEG ratios appear too high, a potentially more attractive alternative exists, or the sector constraints are violated.

Track Record Reliability

- CG IAR considers the track record reliability to be high since Mr. Klaskin developed this investment process. In addition, Mr. Klaskin and Mr. McVicker have managed this strategy since its inception in 1990.

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
David Klaskin	Chairman and CIO	Lead PM			1982	1989	2001
Robert McVicker	Senior PM, Director of Research	Co-PM			1987	1989	2001
Kenneth Kailin	Exec VP	Energy, Industrials	●	University of Chicago	1987	2002	2002
Brian King	Senior VP	Financials, Industrials	●	University of Michigan	2003	2006	2006
Steven Slaughter	Senior VP	Health Care		Northwestern University	2000	2012	2012
Erika Maschmeyer	Senior VP	Consumer Sectors	●	University of Chicago	2004	2013	2013
Robert Corman	Exec VP	Technology	●	University of Chicago	1977	2014	2014
Terry Quinn	Senior VP	Technology			1978	2014	2014

Source: Oak Ridge, CG IAR

Business Structure Overview

History/Ownership

- David Klaskin and Samuel Wegbreit founded Oak Ridge in 1989.
- In 2005, the firm sold a minority stake to Pioneer Investment Management, Inc. (Pioneer). Pioneer is the North America office of Pioneer Global Asset Management S.p.A., the investment management arm of UniCredito Italiano. The majority of the equity sold to Pioneer came from Mr. Wegbreit, who stepped down as COO in May 2004, and three non-employee investors.
- Pioneer has an option to purchase an additional 40% of the equity. However, according to Oak Ridge, this option is not exercisable until 2017.
- The Oak Ridge portfolio managers currently own 37% of the firm and other Oak Ridge employees own 14%. Pioneer owns the remaining 49%.
- Oak Ridge notified CG IAR that the firm will repurchase the 49% stake in Oak Ridge that is currently owned by Pioneer Investments. The transaction is expected to close in October 2014.

Business Plan

- Oak Ridge's business objective is to grow the firm in a thoughtful and profitable manner by continuing to leverage their ability in managing portfolios of high quality growth stocks.
- The firm believes their partnership with Pioneer makes them stronger by giving them access to resources and providing them with additional channels of distribution such as Pioneer's mutual funds.
- The firm recently launched a Rising Dividend Growth Equity strategy that focuses on mid- to large-cap growth companies with consistent earnings and the potential to increase dividends. Dennis Scandrett and David Klaskin are the co-PMs on this product.

Legal/Compliance

- Alan Molotsky is the firm's Chief Compliance Officer.
- Oak Ridge's last SEC audit was in August 2009. According to the firm, the SEC had comments regarding transaction costs on small quantity trades, best execution of trades and books and records. The firm stated that they have addressed the comments from the SEC.

Other Key Factors

Incentives/Alignment of Interests

- Compensation includes a base salary and an annual incentive bonus. The variable compensation is based on portfolio performance, performance of stock recommendations and/or portfolio decisions.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Oak Ridge Employees	51%
Pioneer	49%
Publicly Traded	**Ticker Symbol**
No	N/A

Source: Oak Ridge, CG IAR

Assets Under Management ($ Millions)

Year	Firm	Strategy
2013	$4,200	$3,110
2012	$3,084	$2,532
2011	$2,664	$1,730
2010	$2,912	$1,523
2009	$2,511	$1,027
2008	$1,991	$714

Source: Oak Ridge, CG IAR

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Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of “co-movement” between portfolio returns and benchmark returns. The closer the portfolio’s R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio’s rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio’s returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio’s return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio’s returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

IMPORTANT DISCLOSURES

Report for Use Only in Investment Advisory Programs

This report is only to be used in Morgan Stanley Wealth Management investment advisory programs and not in connection with brokerage accounts.

CG IAR Services Only Apply to Certain Investment Advisory Programs

CG IAR evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Wealth Management’s investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any CG IAR status changes even though it may give notice to clients in other programs.

Focus List, Approved List and Tactical Opportunities List; Watch Policy

CG IAR uses two methods to evaluate investment products in applicable advisory programs: Opinion Research (and investment products meeting this research standard are described as being on the Focus List) and Access Research (and investment products meeting this research standard are described as being on the Approved List). In general, Opinion Research entails a more thorough evaluation of an investment product than Access Research. Sometimes an investment product may be evaluated using the Opinion Research process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. CG IAR may also determine that an investment product no longer meets the criteria under either research process and will no longer be recommended in investment advisory programs (in which case the investment product is given a “Not Approved” status).

CG IAR has a ‘Watch” policy and may describe a Focus List or Approved List investment product as being on “Watch” if CG IAR identifies specific areas that (a) merit further evaluation by CG IAR and (b) may, but are not certain to, result in the investment product becoming “Not Approved.” The Watch period depends on the length of time needed for CG IAR to conduct its evaluation and for the investment manager or fund to address any concerns. CG IAR may, but is not obligated to, note the Watch status in this report with a “W” or “Watch” next to the “Status” on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a paper entitled “Manager Research and Selection: A Disciplined Process.”

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Morgan Stanley Wealth Management has no obligation to update you when any information or opinion in this report changes.

Strategy May Be Available as a Separately Managed Account or Mutual Fund
Strategies are sometimes available in Morgan Stanley Wealth Management investment advisory programs both in the form of a separately managed account ("SMA") and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor or Private Wealth Advisor can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program.

Consider Your Own Investment Needs
This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Performance and Other Portfolio Information
General
Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

Benchmark index
Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment (such as with an investment manager or in a fund) 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 product.

Other data
Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings
Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data
Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

Asset Class and Other Risks
Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

Nondiversification: For 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.

IPO securities: Investment in initial public offerings (IPO) exposes the portfolio to additional risks associated with companies that have little operating history as public companies, as well as to the risks inherent in those sectors of the market where these new issuers operate.

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.

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. Similar to bonds, ***loans*** are subject to interest rate risk and credit risk. Liquidity risk may be greater for a loan since there is no organized exchange on which loans are traded and reliable market quotations may not be readily available.

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.

High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

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

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: The 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.

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.

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.

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 directly to increases or decreases in the underlying stock.

No Tax Advice

Morgan Stanley Wealth Management and its affiliates do not render advice on tax and tax accounting matters to clients. This material was not intended or written to be used, and it cannot be used or relied upon by any recipient, for any purpose, including the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

Please consult your personal tax and/or legal advisor to learn about any potential tax or other implications that may result from acting on a particular recommendation.

Conflicts of Interest

CG IAR's goal is to provide professional, objective evaluations in support of the Morgan Stanley Wealth Management investment advisory programs. We have policies and procedures to help us meet this goal. However, our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by CG IAR come from a variety of sources, including our Morgan Stanley Wealth Management Financial Advisors and their direct or indirect managers, and other business persons within Morgan Stanley Wealth Management or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, Morgan Stanley Wealth Management or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds. For example, a Financial Advisor may suggest that CG IAR evaluates an investment manager or fund in which a portion of his or her clients' assets are already invested. While such a recommendation is permissible, CG IAR is responsible for the opinions expressed by CG IAR. See the conflicts of interest section in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management for a discussion of other types of conflicts that may be relevant to CG IAR's evaluation of managers and funds. In addition, Morgan Stanley Wealth Management, MS&Co., managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts, and managers in various advisory programs. Morgan Stanley Wealth Management, managers, MS&Co., and their affiliates receive compensation and fees in connection with these services. Morgan Stanley Wealth Management believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account.

Wells Fargo Fundamental Small Mid Cap Growth / Discovery Fund

FOCUS LIST RESEARCH REPORT

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STRATEGY DETAILS

INVESTMENT STYLE:	*Small-Mid Cap Growth*
EQUITY SUB-STYLE:	*Aggressive Growth*
BENCHMARK:	*Russell 2500 Growth Index*
CG IAR RESEARCH STATUS:	*Focus List*
PRODUCT TYPE:	*Separately Managed Account (SMA) & Mutual Fund*
TICKER SYMBOL	*STDIX, WFDDX (TRAK FS/UMA)*

www.wellscap.com

STRATEGY DESCRIPTION

The strategy takes a research-driven approach to growth investing. Portfolios are constructed with conviction-weighted ideas that generally fall into 3 categories: “Core Growth,” “Developing Situations,” or “Valuation Opportunities.” Depending upon the complexion of the market or areas attractive to the process, the portfolio may vacillate between a traditional-to-aggressive growth orientation.

Summary of Opinion:

- Consulting Group Investment Advisor Research (“CG IAR”) places the Wells Fargo (“Wells”) – Fundamental SMID Cap Growth (“Smid”) product on the Focus List based upon the strong leadership from lead-PM Tom Pence and above-average investment team given the collective depth and breadth of the group.
- The collaborative nature of the investment process fosters a culture where portfolio and stock-specific information is actively shared across all members of the team, which CG IAR believes contributes to the knowledge base and strength of investment idea generation.
- The team utilizes a fairly opportunistic investment process driven by intensive, investigative research with guidelines, rather than hard and fast rules, around market capitalization and sector exposure, that is driven by the research effort and investment team’s conviction with the ability to participate in a variety of market environments.
- The Wells Fargo Fundamental Small/Mid Cap Growth strategy soft closed on 04/30/14.

Focus List				Snapshot		
Investment Capabilities	Business Evaluation	Short-Term Performance Analysis (≤ 3Yrs)	Long-Term Performance Analysis (> 3 Yrs)	Track Record Reliability	Expected Benchmark Sensitivity	Expected Portfolio Turnover
Above Average	**Above Average**	Above Expectations	Above Expectations	**High**	High	**High**
Average	Average	**In-Line**	**In-Line**	Moderate	Moderate	Moderate
Needs Improvement	Needs Improvement	Below Expectations	Below Expectations	Low	**Low**	Low

See Opinion Description at the end of this report.

Positive Attributes

- Well-above-average fundamental research drives the investment process.
- Experience and breadth of investment professionals who have worked together for many years.
- Strong leadership from portfolio manager Tom Pence.

Points to Consider

- The portfolio typically holds between 75 and 85 stocks with turnover averaging 100% to 200%.
- PMs retain the ability to let positions run without constraints on market cap.
- Generally, the portfolio is reflective of the conviction of the investment team and may at times deviate from market cap and sector guidelines.
- The portfolio is expected to take fairly active exposures relative to the Russell 2500 Growth Index.

Areas of Concern

- Key man risk with our favorable opinion weighted heavily on Mr. Pence.
- Our more mild concerns regarding an elevated level of personnel turnover has been gaining strength with recent additions/departures; however, the changes are viewed as mostly net upgrades in the team's capabilities.

Performance Expectations

- The flexible process may lead to very wide performance deviations from the benchmark, which is reflected in historically high tracking error metrics.
- Portfolio maintains a bias away from companies <$1 billion and is expected to lag when smaller/micro-cap companies outperform.
- CG IAR expects the portfolio to generally outperform during broad-based growth-led markets that reward fundamental metrics (as opposed to technical factors).
- The economic sector profile of the portfolio has varied over time, but generally held a favorable bias toward the Technology, Telecomm, and Energy sectors such that if these sectors lagged it would produce a headwind for the portfolio.

Performance Opinion

- The portfolio's outperformance over the trailing 3-year annualized period ending 1Q14 was within expectations as the higher-beta orientation tended to help the portfolio keep pace in an environment that was predominantly "risk on." Broad-based positive stock selection was the main proponent of excess return.
- As of 1Q14, the portfolio outperformed the benchmark over the most recent 5-year and 10-year annualized periods. This performance is generally within expectations based on the portfolio outperforming in most periods when high growth stocks were in favor such as 2010; however, in 2009 the portfolio did not perform as well given similar conditions. The strategy's 5-year alpha, for the period ending 1Q14, is considered attractive.

News Summary

- April 2014 – The Small/Mid Growth strategy soft closed on 4/30/14.
- March 2014 – Technology analyst Trevor Moreno leaves the firm and is replaced by Brandon Taylor.
- August 2013 – Technology analyst Jon Neitzell leaves the firm.
- June 2013 – intern Nick Birk joins the firm after completing his Harvard MBA (anticipated to pick up Energy sector coverage).
- December 2013 – Tom Askey joins the firm as a generalist.
- April 2012 – Energy analyst Mark daSilva passed away.
- January 2012 – co-PM Michael Harris leaves the firm, Michael Smith named as co-PM on all strategies, and Technology analyst Chris Warner promoted to co-PM on the Mid & Smid Growth strategies (no impact to scores).
- Nov 2011 – Lindsay Strickland joins the team as a Consumer Discretionary analyst.
- Oct 2011 – Roger Norberg (Head of Research) leaves the firm.
- May 2011 – Consumers analyst Caroline Chiodo leaves the firm.
- March 2011 – Small/Mid co-PM James Leach leaves the firm, Mike Smith assumes his co-PM responsibilities.
- March 2011 – Tom Pence employment contract renewed.
- 1Q10 – Michael Smith (PM of ACG & a Health Care analyst) was promoted as co-PM of Select LCG.
- 3Q09 – Sr. analyst Jon Evans left the firm and was replaced by Roger Norberg.

Additional Analyst Comments

- The team has experienced an elevated level of personnel turnover and functional role changes as noted in the News Summary section. Since 2009, the team added 9 research professionals, lost 8, and saw the creation and dissolution of the Head of Research Role as well as the promotion of 2 analysts to co-PM roles. While this amount of change is disconcerting, a core contingent has a long tenure working with lead-PM Tom Pence since 2000 and changes are viewed as net upgrades at the margin. Turnover has translated into upward mobility within the group, which is healthy for motivating employees and attracting new talent.
- As Mr. Pence seasons in his career, he can foresee making certain allowances such that other team members can progress along their career path. CG IAR views Tom Pence as the key investment professional at Wells. Although Tom has no intention of reducing his contribution to the team, CG IAR can envision a slow evolution whereby he cedes certain roles to other team members for the sake of team cohesion and longevity. While CG IAR views this awareness favorably, we will continue to monitor Mr. Pence's engagement with the team and his career progression over time.
- CG IAR's high Track Record rating is more indicative of the stability of Tom Pence as lead-PM and the overall cohesion of the team (with a de-emphasis of changes at the co-PM level).
- In discussions between CG IAR and Mr. Pence, the no-solicit non-compete terms are at his request as he believes that clients view this provision favorably and would be alarmed if it were removed. For this reason, CG IAR anticipates that this aspect of the contract should be renewed on a regular basis. The current contract expires in December 2014.
- Although capacity is a moving target, Wells believes the team can currently manage approximately \$25 billion–\$35 billion across all strategies. Wells has a dedicated group assigned to risk management that evaluates a number of variables in a scenario analysis to determine capacity across products at any given point in time. Rather than assigning an absolute threshold, this evaluation will determine the optimal level of assets (which are dependent upon several conditions) that would warrant steps be taken to maintain the proper implementation of the investment process.
- Circa 2013, the ranges for the different categories of stocks were changed to more accurately reflect the expectations of the portfolio managers, with the effect of an increased exposure to the "Developing Situations" bucket (from 30-40% to 40-50%) and a commensurate decrease in the "Opportunistic" bucket (from 10-20% to 5-10%). At the margin, this may have the effect of reducing turnover and gravitate the portfolio toward a traditional-growth profile. The "Core" segment parameters did not change.
- Although capacity is a moving target, Wells believes the team can currently manage approximately \$25 billion–\$35 billion across all strategies.
- The team reflects a guarded perspective regarding capacity with the intention of maintaining the integrity of the investment process and portfolio construction, which CG IAR views positively. However, capacity could become an issue as evidenced by the slight increase in the holdings range from 60-80 to 75-85 positions in concert with the 4/30/14 soft close at nearly \$6 billion. The Mid Cap Growth product's estimated capacity was revised from \$6 billion to \$4 billion.

Additional News Summary

- 2Q10 – Wells absorbs the Evergreen Omega Fund, which gives the team an All Cap Growth mutual fund offering to complement the SMA strategy.

Portfolio Traits

Equity	
Range of Holdings	75-85 (guideline)
Maximum Position Size	the greater of 5% or 2X the benchmark weight
Econ Sector Constraints	2x the benchmark
Country Constraints	Up to 25% in ADRs
Current Hedging	No
Tracking Error Target	Approximately 4-5%
Typical Annual Turnover	100-200%
Invests in ADRs	Yes
Invests in ETFs	No
Invests in Derivatives	No
Invests in IPOs	Yes, in open market
Liquidity Constraints	No more than 5 days trading volume
Maximum Cash	10%
Typical Cash Position	<5%
Est. Product Capacity	The strategy soft-closed 4/30/14 at nearly \$6 billion

Sources: Wells Fargo, CG IAR

Investment Capabilities Overview

Portfolio Management Team

- Tom Pence is the lead-PM on all products managed by the Fundamental Growth Equity team. Effective 1Q10, Michael Smith was named as co-PM of the Select strategy and effective January 2012 made co-PM on all of the strategies managed by the team in concert with Chris Warner being promoted to co-PM on the Smid and Mid strategies. Messrs. Pence, Smith, and Warner are supported by 10 other investment professionals.
- Some of the Fundamental Growth Equity investment professionals previously had worked together at Conseco Capital Management ("CCM") before joining Strong in October 2000 and being subsequently acquired by Wells in December 2004.
- Mr. Pence was a Chief Equity Officer of Conseco Capital Management before joining Strong. While at CCM, Mr. Pence was responsible for managing mid-cap equity portfolios as well as various mutual funds.
- As part of the collaborative approach, the entire team is involved in the research process. While each member of the team may have experience in a given sector, analysts are expected to act as generalists since ideas are evaluated from many different angles.

Investment Philosophy & Process

- Quantitative screens are conducted in FactSet using the Russell 3000 Index as a universe on factors that may include, but not be limited to: insider buying, valuation, relative strength, earnings surprise, free cash flow yield, and EV/EBITDA.
- The team believes that large companies get larger by acquiring smaller/faster growing companies and the fundamental analysis attempts to understand how companies of all capitalizations interact together in the competitive landscape.
- Qualitative screens include leveraging the team's network of management contacts, industry sources, grass-roots research, and industry conferences for idea generation. Wells states that they do not use one specific source and ideas can come from anywhere.
- Once a target company is identified, the team attempts to "surround the company" through a whole market approach to fundamental analysis.
- Portfolio construction attempts to balance risk and return by combining Core Growth Companies (40% to 50%), Developing Situations (40% to 50%) and Valuation Opportunities (5% to 10%). The Core segment of the portfolio can have a traditional growth bias meant to offer an element of stability to the portfolio, whereas the Developing allocation has less proven management and can be higher beta in nature, and the remaining portion is reserved for opportunistic scenarios and are typically catalyst-driven, shorter-term holdings.
- Analysts conduct free cash flow analysis and scenario analysis to establish a base case, bear case, and bull case to anticipate upside potential as well as downside risk. Near- and long-term valuation targets are also established.
- Typically, new purchases should be in a market cap range of $250 million to $7 billion, as a guideline. Wells states that winners will be allowed to run up to $20 billion as long as fundamentals remain intact and the valuation is considered reasonable.

Summary of Investment Capabilities Opinion

- CG IAR has high conviction in the leadership and investment acumen of lead-PM Tom Pence and his ability to build and cultivate a cohesive team that relies on fluid information sharing and collaboration as a key strength. The departure of Mr. Pence could impact our overall opinion.
- The internal research conducted by the Wells Fundamental Growth Equity team is considered well above average relative to most other investment management firms given the investigative nature of the research effort and the focus on building relationships within industries that serve as a valuable resource to understand and evaluate both company and industry trends.
- The team utilizes a fairly opportunistic investment process driven by in-depth research with guidelines around market capitalization and sector exposure, driven by the investment team's conviction. CG IAR believes this flexibility should result in the ability to participate in a variety of market environments.

Other Key Items

Decision-Making

- Although Mr. Smith has day-to-day portfolio construction responsibilities, decisions are made in conjunction with Mr. Pence who maintains veto authority for all strategies.
- All investment ideas must have a portfolio manager "sponsor" who would decide if an idea is worthy of further analysis. Portfolio managers cannot sponsor their own ideas. Once a portfolio manager elects to be a sponsor for an idea, it will go on the Priority List along with the targeted portfolio(s) for further analysis.
- Ultimate decisions about what remains on the Priority List are made at the weekly investment committee meetings. Names may be removed as a result of the investment team's weekly discussion.
- A final factor in the process is a rating of 1-4 for each stock (a "1" indicating an up to 1% position designed to mitigate market or event risk and a "4" designating a stock where Wells believes they have a research "edge" with compelling valuations and a near-term catalyst). The team will purchase names across all ratings, but the rating will directly influence position size.

Sell Process

- A stock is typically sold when it hits the price target, fundamentals change, position exceeds 5%, or a better opportunity emerges.
- Stocks are reviewed but not automatically sold when a stock declines 10% relative to market, breaks below 200-day moving average, and/or sector exposure is 200% of benchmark weight.

Track Record Reliability

- Returns of this product are representative of the existing portfolio management team in place.
- The fund experienced an investment process and portfolio management change effective July 2001 such that prior performance is not indicative of the Fundamental Growth Equity team currently in place.
- Co-PM James Leach left the firm in March 2011 and his co-PM responsibilities were absorbed by co-PM Mike Smith. Chris Warner was added as a third co-PM in Jan 2012.

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm*	Product
Thomas J. Pence	Lead-Portfolio Manager	Energy, Health Care	●	Notre Dame	1991	2000	2000
Michael T. Smith	Co-PM	Health Care	●		1999	2000	2000
Chris Warner	Co-PM (Smid/Mid)	Technology, Telecom	●	Michigan	2001	2006	2006
J. Ryan Duckworth	Research Analyst	Consumer Staples, Materials			2006	2006	2006
Chad Fugere	Research Analyst	Health Care, Utilities		Minnesota	1999	2007	2007
Siddhant Dhanda	Research Analyst	Industrials			1991	2000	2000
Anna Toshach	Research Analyst	Generalist			2009	2009	2009
Michael Davidoff	Research Analyst	Health Care	●	Univ. of Chicago	1999	2010	2010
Kevin Curran	Research Analyst	Financials	●		1995	2010	2010
Lindsay Strickland	Research Analyst	Consumer Discretionary			2000	2011	2011
Nick Birk	Research Analyst	Tech & Energy		Harvard	2013	2013	2013
Tom Askey	Research Analyst	Generalist			2013	2013	2013
Brandon Taylor	Research Analyst	Technology			2004	2014	2014

Source: Wells Fargo, CG IAR
**Firm does not include the prior period when the team was at Conseco.*

Other Key Professionals

Investment Team Overview	Position	Area of Responsibility	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Travis L. Keshemberg	Overlay Portfolio Manager		●	Wisconsin	1994	2007	2008
Debra A. Early	CCO – WFFM			Florida Atlantic	1986	2007	N/A
Mai Shriver	CCO – WellsCap			California	1992	2004	N/A
F. Jon Baranko	Chief Equity Officer			Marquette	1992	1992	N/A
Kirk Hartman	President & Chief Investment Officer			Northwestern	1984	2002	N/A

Source: Wells Fargo, CG IAR

Primary Functions of Key Professionals

Name	Security Selection	Security Research	Portfolio Construction	Trading	Client Service	Business Management
Thomas J. Pence	●	●	●			
Michael T. Smith	●	●	●			
Chris Warner		●				
Ryan Duckworth		●				
Chad Fugere		●				
Siddhant Dhanda		●				
Anna Toshach		●				
Michael Davidoff		●				
Kevin Curran		●				
Lindsay Strickland		●				
Nick Birk		●				
Tom Askey		●				
Brandon Taylor		●				
Travis Keshemberg				●	●	
Debra A. Early						●
Mai Shriver						●
F. Jon Baranko						●
Kirk Hartman						●

Source: Wells Fargo, CG IAR

Business Structure Overview

History/Ownership

- Wells Fargo is a diversified financial services firm originally founded in 1852 and serves investment management needs primarily through its Asset Management Group, Wells Capital Management (WellsCap), and Wells Fargo Funds Management (WFFM).
- WellsCap was formed in 1996 from various investment management teams. It is a wholly owned subsidiary of Wells Fargo Bank, N.A., which in turn is wholly owned by Wells Fargo & Co.
- WFFM serves as the investment advisor to the Wells Fargo Advantage Funds and separately managed accounts. WFFM draws upon the expertise of WellsCap as the primary provider of investment management services to its mutual funds as well as other products.
- In 2004, Wells Fargo & Co. acquired the assets of Strong Capital Management. On December 31, 2008, Wells Fargo & Co. acquired Wachovia Corporation.
- The Fundamental Growth team operates autonomously, from an investment perspective, in offices in Indianapolis and is supported by Wisconsin headquarters for back-office operations, marketing, information technology and other business infrastructure.

Business Plan

- The firm's plans for business growth focus mainly on expansion of separate account management and advisory relationships.
- WFFM has stated that it has seen increased interest in its UCITS funds. As a result, the firm will continue to expand the list of funds and corresponding distribution capabilities.
- During July 2010, the firm integrated the Evergreen strategies into the Wells platforms, which aims to streamline the overall product offering and increase efficiency and profitability.
- Wells actively monitors capacity, which is a moving target. The team soft closed the strategy on 04/30/14 at approximately $6 billion, and believes they can manage approximately $4 billion in Mid Cap Growth product (which has about 60% overlap), and approximately $25 billion–$35 billion across all strategies.

Legal/Compliance

- The firm underwent a routine SEC exam in 2008-2009.
- On October 2, 2011, the SEC staff began a limited scope examination of certain Wells Fargo Advantage Funds in which WellsCap sub-advises (i.e., the prime money market funds) by requesting certain documents and conducting, jointly with Federal Reserve Bank examiners, interviews with WellsCap personnel in October and November 2011. In June 2012, WellsCap received a comment letter from the SEC citing no deficiencies.
- Wells employs an internal audit department as a means of being proactive on various compliance and operational issues.
- Since Wells Fargo is a large financial institution, there will likely be lawsuits from time to time that are within the normal course of business.

Summary of Business Structure Opinion

- The Fundamental Growth Equity team was a strategic consideration in the Wells acquisition of Strong Capital Management, which increases CG IAR's confidence that the appropriate resources are in place for retention of investment personnel and consistency of the investment process.
- The team also leverages the capabilities of the parent firm from a technology and operational standpoint. Wells robust systems and the depth and breadth of support staff are viewed positively by CG IAR in that critical functions can be absorbed within the firm in the event of personnel departures or role changes.

Other Key Factors

Incentives/Alignment of Interests

- Wells offers a selection of the mutual fund version of various strategies to employees via the firm's retirement plan (401k).
- In addition to the regular salary component of compensation, the Fundamental Growth Equity team has a negotiated revenue sharing arrangement with Wells.
- The amount of revenue sharing that is paid out to a given investment team is directly linked to performance metrics, client retention, and investment alpha generated by the team.
- The team is aware of their bonus target at the beginning of the year, which can be achieved by attaining performance targets, which can be enhanced by asset growth.
- Tom Pence has discretion regarding how the revenue stream is disbursed to the professionals and support staff within their group (research analysts, traders, and assistants).
- To strengthen retention, circa 2011 the firm added an extra supplemental bonus award that vests over time.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Wells Fargo & Co.	100%
Publicly Traded	**Ticker Symbol**
Yes	WFC

Source: Wells Fargo, CG IAR

Assets Under Management ($ Millions)

Year	Firm*	Strategy**
1Q14	$357,113	$5,998
2013	$349,310	$5,696
2012	$332,154	$3,295
2011	$332,982	$2,336
2010	$353,708	$1,396
2009	$363,451	$860
2008	$252,048	$670
2007	$219,911	$1,421

Source: Wells Fargo, CG IAR

**Firm assets are reflective of Wells Capital Management, which is inclusive of Wells Fargo Funds Management.*

*** Product assets are reflective of the overall strategy, including $3,383 million in the mutual fund as of 3/31/14.*

The strategy soft closed on 04/30/14 at approximately $6 billion.

OPINION OVERVIEW DESCRIPTION

Investment Capabilities – Represents CG IAR's opinion of the investment manager's investment capabilities with respect to the product under evaluation. This section covers the areas of quality of investment professionals, portfolio management, research and process execution. As these areas are not mutually exclusive, but rather interrelated, it is important to render a cohesive opinion on these areas of an organization. This section has three potential opinion outcomes: **Above Average, Average** and **Needs Improvement**. **Above Average** conveys that CG IAR has a high degree of confidence and conviction in a manager's investment capabilities. An opinion of **Average** denotes that, while CG IAR has a generally favorable view, it may have some concerns about the investment manager's investment capabilities. An opinion rating of **Needs Improvement** generally indicates that CG IAR has material concerns about the investment manager's overall investment capabilities. For example, this could be the result of sizable personnel departures, poor execution of stated investment discipline or a limited research effort.

Business Evaluation - Represents CG IAR's opinion of the state of the investment manager's overall business condition. This area reviews items such as ownership structure, trends in assets under management, legal and/or compliance issues, investment professional incentives and trading policies. This area has three potential opinion outcomes: **Above Average, Average** and **Needs Improvement**. **Above Average** conveys that CG IAR has a high degree of confidence and conviction in a manager's overall business structure and believes that there are limited to no material issues. An opinion of **Average** denotes that, while CG IAR has a generally favorable view, it may have some concerns about the investment manager's business structure. An opinion rating of **Needs Improvement** generally indicates that CG IAR has material concerns about the investment manager's overall business structure. For example, this could be the result of what we believe to be material legal and/or compliance issues, material asset loss, ownership issues or ineffective incentives for the investment professionals.

Short-Term & Long-Term Performance Analysis – The opinion for performance is broken into two components: 1) Short-Term Performance Analysis represents CG IAR's opinion of the investment product's performance typically over a time period of the trailing three years or less, 2) Long-Term Performance Analysis represents CG IAR's opinion of the investment product's performance typically over a time period of more than the trailing three years. These areas have three potential opinion outcomes: **Above Expectations, In-Line** and **Below Expectations**. **Above Expectations** conveys that CG IAR believes the investment product has performed better than expected given investment biases and market conditions, while an opinion of **In-Line** denotes that CG IAR believes the investment product has performed as expected given investment biases and market conditions. A rating of **In-Line** should not be interpreted negatively, but rather that the investment product is performing as expected. An opinion rating of **Below Expectations** generally indicates that CG IAR has concerns about the investment product's overall investment performance given our knowledge of the investment manager's process and the overall market conditions.

Track Record Reliability – Represents CG IAR's opinion of the overall integrity of the investment performance displayed to clients or potential clients. This area takes into consideration items such as portfolio manager tenure on a respective strategy, construction of the performance composite, and consistency in the execution of a stated investment process. This area has three potential opinion outcomes: **High, Moderate** and **Low**. **High** conveys that CG IAR believes the investment performance track record has a high degree of integrity and is representative of what investors could expect over time, while an opinion of **Moderate** denotes that CG IAR may have some concerns as it relates to the historical performance track record. An opinion rating of **Low** generally indicates that CG IAR has material concerns about the investment product's historical performance track record. For example, if an investment product has had a long standing portfolio manager that has delivered solid performance results over the last five years relative to a benchmark and the portfolio manager is replaced by a new portfolio manager that instills a new investment process, CG IAR may consider the historical performance track record to be non-representative of the new investment discipline.

Expected Benchmark Sensitivity – Represents CG IAR's opinion of how closely an investment product's performance is expected to "track" the investment performance of CG IAR's designated performance benchmark for a particular investment product. This area evaluates the historical investment performance tracking of a given investment product relative to a respective benchmark as well as the investment manager's current approach to active portfolio management. In evaluating benchmark sensitivity, CG will use relevant statistical measures such as tracking error and R-Squared as well as portfolio construction guidelines such as economic sector constraints and benchmark relative position sizing. This area has three potential opinion outcomes: **High, Moderate** and **Low**. In CG IAR's opinion, **High** conveys that a product is anticipated to be managed with a high degree of emphasis on its benchmark with relatively tight control over the product's active weights relative to that benchmark. High benchmark sensitivity does not mean wide deviations from the benchmark will not happen, but that the investment manager seeks to reduce them. **Moderate** conveys that a product's management is anticipated to have some amount of benchmark sensitivity, but is able to make meaningful, but controlled, allocations away from a benchmark. **Low** denotes that a product places little to no emphasis on its assigned benchmark. Performance from a month-to-month and year-to-year basis may deviate significantly from its benchmark.

Expected Portfolio Turnover - Represents CG IAR's opinion of how actively the portfolio is managed from the perspective of trading activity (purchases, sales, additions, trims, etc.). We do not view these ratings positively or negatively, but render an opinion for this category so Financial Advisors or Private Wealth Advisors and clients have some idea as to the overall level of activity that takes place in a given portfolio. High activity may result in a portfolio that is less tax-efficient for taxable clients, whereas Low activity may result in a more tax efficient portfolio for taxable clients. This area has three potential opinion outcomes: **High, Moderate** and **Low**. In CG IAR's opinion, **High** conveys an investment product that is likely to have more than 90% turnover on an annual basis, while **Moderate** indicates expected annual portfolio turnover in the range of 30% - 90% and **Low** indicates expected annual portfolio turnover of less than 30%.

DEFINITIONS

Aggressive Growth: Generally seek higher growth-rate companies, may place less emphasis on valuations and more emphasis on shorter-term and possibly momentum factors, and may demonstrate a greater willingness to invest in more speculative companies. Valuations are generally at a premium to the growth benchmark and volatility and turnover are frequently higher than peers.

Sub-Styles: Subjective classifications designed to assist with manager selection and performance evaluation based on Consulting Group Investment Advisor Research ("CG IAR") understanding of a manager's long-term investment philosophy and portfolio structuring biases and techniques. At points in time managers may display attributes of other sub-style classifications, and these classifications may change due to changes in the capital markets, evolution of performance benchmarks, industry trends, or changes involving a manager's personnel or process.

Russell 2500 Growth - Russell 2500 Growth Index measures the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

IMPORTANT DISCLOSURES

Report for Use Only in Investment Advisory Programs
This report is only to be used in Morgan Stanley Wealth Management investment advisory programs and not in connection with brokerage accounts.

CG IAR Services Only Apply to Certain Investment Advisory Programs
CG IAR evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Wealth Management's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any CG IAR status changes even though it may give notice to clients in other programs.

Focus List, Approved List and Tactical Opportunities List; Watch Policy
CG IAR uses two methods to evaluate investment products in applicable advisory programs: Opinion Research (and investment products meeting this research standard are described as being on the Focus List) and Access Research (and investment products meeting this research standard are described as being on the Approved List). In general, Opinion Research entails a more thorough evaluation of an investment product than Access Research. Sometimes an investment product may be evaluated using the Opinion Research process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. CG IAR may also determine that an investment product no longer meets the criteria under either research process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

CG IAR has a 'Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if CG IAR identifies specific areas that (a) merit further evaluation by CG IAR and (b) may, but are not certain to, result in the investment product becoming "Not Approved." The Watch period depends on the length of time needed for CG IAR to conduct its evaluation and for the investment manager or fund to address any concerns. CG IAR may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" next to the "Status" on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a paper entitled "Manager Research and Selection: A Disciplined Process."

No Obligation to Update
Morgan Stanley Wealth Management has no obligation to update you when any information or opinion in this report changes.

Strategy May Be Available as a Separately Managed Account or Mutual Fund
Strategies are sometimes available in Morgan Stanley Wealth Management investment advisory programs both in the form of a separately managed account ("SMA") and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor or Private Wealth Advisor can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program.

Consider Your Own Investment Needs
This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Performance and Other Portfolio Information

General

Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

For mutual funds, the investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain performance information, current to the most recent month-end, please contact the fund directly at the website set out on the cover page of this report.

Benchmark index

Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment (such as with an investment manager or in a fund) 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 product.

Other data

Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings

Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data

Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

Asset Class and Other Risks

Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

Nondiversification: For 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.

IPO securities: Investment in initial public offerings (IPO) exposes the portfolio to additional risks associated with companies that have little operating history as public companies, as well as to the risks inherent in those sectors of the market where these new issuers operate.

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.

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. Similar to bonds, ***loans*** are subject to interest rate risk and credit risk. Liquidity risk may be greater for a loan since there is no organized exchange on which loans are traded and reliable market quotations may not be readily available.

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.

High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

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

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: The 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.

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.

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.

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 directly to increases or decreases in the underlying stock.

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AMI Asset Management Small Cap Growth

APPROVED LIST RESEARCH REPORT

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STRATEGY DETAILS

INVESTMENT STYLE:	*Small Cap Growth*
BENCHMARK:	*Russell 2000 Growth*
CG IAR RESEARCH STATUS:	*Approved*
PRODUCT TYPE:	*Separately Managed Account*
TICKER SYMBOL	*N/A*
SUB-ADVISOR	*N/A*

http://www.amiassetmanagement.com

STRATEGY DESCRIPTION

AMI manages a bottom-up small cap growth strategy focusing on companies which have recurring revenue business models along with strong cash flow and balance sheets. Recurring revenue is defined as a company with a product that has a lifespan less than two years. Valuation is also an important component of their investment process.

Summary of Opinion:

- Boutique, 100% employee owned asset management firm with a long history of managing large cap growth assets dating back to 1998 and small cap growth since 2008.
- Lead Small Cap portfolio manager has over 20 years of investment experience and has been with the firm since 2005. He is also a portfolio manager on their Large Cap Growth strategy and is supported by two research analysts who research both small and large cap stocks.
- While most small cap growth managers focus on earnings growth, AMI looks for growth companies with recurring revenue business models which they believe allows the company to grow at a more consistent and sustainable growth rate and in turn reduces the volatility of earnings.
- As a result of the strategy's investment process that is focused on higher quality, the strategy's performance pattern generally reflects lower beta, lower up-market and lower down-market capture relative to the benchmark. Additionally the strategy has historically generated lower standard deviation relative to the benchmark.
- One institutional client makes up a very large percentage of the Small Cap Growth assets under management.

Positive Attributes

- 100% employee owned with three of the four owners involved with investments.
- Experienced PM with over 20 years of investment experience and has been with AMI since 2005.
- A unique investment process focusing on companies with recurring revenue business models.

Points to Consider

- Bottom up fundamental investment process.
- Relatively concentrated portfolio of 30-35 securities.
- Low portfolio turnover of approximately 40% making it attractive for taxable clients.
- Focus on companies with a recurring revenue business model.
- Process incorporates a valuation component using a discounted cash flow model to estimate a company's intrinsic value.
- Investment process typically results in overweights in the Consumer Staples and Health Care sectors, and underweights to Information Technology and Financials sectors.

Areas of Concern

- Given Chris Sessing is the lead portfolio manager; his departure would be considered material to CG IARs opinion.
- One institutional client makes up a very large percentage of the strategies assets under management.

News Summary

- 2009 – Brought fixed income management in-house, previously outsourced.
- 2008 – Started managing small cap growth equities.
- 2005 – Chris Sessing hired to co-manage the equity portfolio.
- 2003 – Outsourced the management of fixed income assets.
- 1998 – Started managing large cap growth equities.
- 1998 – AMI Asset Management founded.

Additional Comments

- As a result of the strategy's investment process that is focused on higher quality, the strategy's performance pattern generally reflects lower beta, lower up-market and lower down-market capture relative to the benchmark. Additionally the strategy has historically generated lower standard deviation relative to the benchmark

Portfolio Traits

Equity	
Range of Holdings	30-35
Maximum Position Size	5% at purchase, 7% with appreciation
Econ Sector Constraints	Maximum of 30% or 1.5x the Russell 2000 Growth Index weight
Tracking Error Target	N/A
Typical Annual Turnover	~40%
Invests in ADRs	No
Invests in ETFs	No
Invests in Derivatives	No
Invests in IPOs	No
Liquidity Constraints	No
Maximum Cash	5%
Typical Cash Position	1-2%
Est. Product Capacity	$1b

Source: AMI

Investment Capabilities Overview

Portfolio Management Team

- The lead portfolio manager, Chris Sessing, is supported by two research analysts who also have specific sector coverage, one of which joined in 2013.
- There are currently no plans to hire any additional investment related staff at this time.

Investment Philosophy & Process

- AMI believes that a company with a recurring business model allows them to grow at a more consistent and sustainable growth rate while reducing volatility in earnings.
- Ideas are identified through various sources such as quantitative screens, industry conferences, third party research and through their long term experience and knowledge managing small cap stocks.
- Quantitative screens are utilized more as a way to screen out certain industries and companies that typically do not have recurring revenue business models and for companies with either high or P/E's.
- AMI is looking for companies with consistent recurring revenue, attractive growth prospects, strong cash flow, and good balance sheets.
- Additional criteria include companies which exhibit pricing power, preferably are #1 or #2 in market share and expected to have at least a 10%+ sustainable EPS growth.
- Also important to AMI is companies with low debt (typically less than 2.5x EBITDA).
- AMI pays particular attention to a company's inventories and receivables and how they impact earnings.
- The valuation aspect of their process utilizes a Discounted Cash Flow (DCF) along with P/E and PEG ratios to determine the firm value and whether it is undervalued. If the discount is greater than 10% they will consider purchasing the stock.
- Risk control includes sector weight limits of a maximum 35% or twice the Russell 2000 Growth Index weighting, and maximum individual position sizes of 5% at time of purchase and 10% maximum with appreciation.
- Investment process typically results in overweights in the Consumer Staples and Health Care sectors, and underweights to the Information Technology and Consumer Discretionary sectors. Types of companies they tend to avoid include retail, highly cyclical companies, capital market sensitive investment banks, and companies with no growth or declining customer bases.

Other Key Items

Decision Making

- Mr. Sessing is the primary decision maker on adding and selling securities in the portfolio.

Sell Process

- The primary reason for a sale is deteriorating fundamentals which would typically lead to the sale of the entire position. Examples of this include worsening industry or regulatory changes, weakening competitive advantage, structural margin changes, and balance sheet deterioration.
- Securities may be trimmed if the stock exceeds 15% of their estimate of intrinsic value.

Track Record Reliability

- CG IAR believes the track record since inception is representative as the lead Portfolio Manager has been managing the strategy since its inception.
- The lead portfolio manager, Chris Sessing, has been managing the strategy since its inception in 2008. However, since its inception, the strategy has had a relatively low level of assets, only reaching $15mm in AUM at the end of 2012. During 2013, the strategy's assets grew to $186mm as of 12/31/13. As such, CG IAR believes the strategy's historic performance track record prior to 12/31/13 may have benefited from its low asset base.

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Chris Sessing	Lead Portfolio Manager, Senior Analyst	Health Care, Information Technology, Industrials, Financials	●		1992	2005	2008
Darrin Mainstain	Equity Analyst	Consumer Staples, Consumer Discretionary			2007	2007	2010
Zach Robinow	Equity Analyst	N/A			2013	2013	2013

Source: AMI, CG IAR

Business Structure Overview

History/Ownership

- AMI Asset Management formed in 1998 by Mr. Tanner.
- Matt Humiston joins the firm to co-manage the equity portfolio.
- Fixed income management was outsourced to an outside firm in 2003.
- Chris Sessing joins the firm in 2005 to co-manage the equity portfolio with Mr. Tanner and Mr. Humiston.
- Small cap growth incepted in 2008.
- Fixed income management was brought back in house in 2009 with the hiring of portfolio manager Tim Somers.

Business Plan

- AMI seeks to grow their asset under management to $5b over the next five years, the majority of which will come from institutional clients.
- AMI may consider starting a mutual fund for both the large cap and small cap growth strategies.

Legal/Compliance

- The SEC last examined AMI in late 2006 and according to AMI, all deficiencies from the exam have been addressed.
- According to AMI there is no litigation currently.

Other Key Factors

Incentives/Alignment of Interests

- Employees are compensated through a combination of salary and discretionary bonus. The bonus is based upon the overall profitability of the firm, investment performance, strategy assets for which the individual is responsible, and their contribution to the team.
- Industry-wide salary surveys are used periodically to assess if the total benefits package is competitive with peers.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Bill Tanner	41%
Matt Humiston	28%
Peter Mainstain	26%
Chris Sessing	5%
Publicly Traded	**Ticker Symbol**
N/A	N/A

Source: AMI, CG IAR

Assets Under Management ($ Millions)

Year	Firm	Product
2013	$1,201	$186
2012	$803	$15
2011	$646	$10
2010	$528	$6.7
2009	$454	$2.7
2008	$389	$2.3

Source: AMI, CG IAR

DEFINITIONS

Russell 2000 Growth - Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of “co-movement” between portfolio returns and benchmark returns. The closer the portfolio’s R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio’s rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio’s returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio’s return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio’s returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

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Investment products may move from the Focus List to the Approved List, or vice versa. CG IAR may also determine that an investment product no longer meets the criteria under either research process and will no longer be recommended in investment advisory programs (in which case the investment product is given a “Not Approved” status).

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Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

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Consider Your Own Investment Needs
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General
Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

Benchmark index
Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment (such as with an investment manager or in a fund) 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 product.

Other data
Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

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Asset Class and Other Risks
Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

Nondiversification: For 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.

IPO securities: Investment in initial public offerings (IPO) exposes the portfolio to additional risks associated with companies that have little operating history as public companies, as well as to the risks inherent in those sectors of the market where these new issuers operate.

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.

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. Similar to bonds, ***loans*** are subject to interest rate risk and credit risk. Liquidity risk may be greater for a loan since there is no organized exchange on which loans are traded and reliable market quotations may not be readily available.

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.

High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

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

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: The 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.

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.

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.

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 directly to increases or decreases in the underlying stock.

No Tax Advice

Morgan Stanley Wealth Management and its affiliates do not render advice on tax and tax accounting matters to clients. This material was not intended or written to be used, and it cannot be used or relied upon by any recipient, for any purpose, including the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

Please consult your personal tax and/or legal advisor to learn about any potential tax or other implications that may result from acting on a particular recommendation.

Conflicts of Interest

CG IAR's goal is to provide professional, objective evaluations in support of the Morgan Stanley Wealth Management investment advisory programs. We have policies and procedures to help us meet this goal. However, our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by CG IAR come from a variety of sources, including our Morgan Stanley Wealth Management Financial Advisors and their direct or indirect managers, and other business persons within Morgan Stanley Wealth Management or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, Morgan Stanley Wealth Management or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds. For example, a Financial Advisor may suggest that CG IAR evaluates an investment manager or fund in which a portion of his or her clients' assets are already invested. While such a recommendation is permissible, CG IAR is responsible for the opinions expressed by CG IAR. See the conflicts of interest section in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management for a discussion of other types of conflicts that may be relevant to CG IAR's evaluation of managers and funds. In addition, Morgan Stanley Wealth Management, MS&Co., managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts, and managers in various advisory programs. Morgan Stanley Wealth Management, managers, MS&Co., and their affiliates receive compensation and fees in connection with these services. Morgan Stanley Wealth Management believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account.

Apex Small Cap Growth

FOCUS LIST RESEARCH REPORT

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STRATEGY DETAILS

INVESTMENT STYLE:	*Small Cap Growth*
EQUITY SUB-STYLE:	*Traditional Growth*
BENCHMARK:	*Russell 2000 Growth Index*
CG IAR RESEARCH STATUS:	*Focus List*
PRODUCT TYPE:	*Separately Managed Account*

www.apexcm.com

STRATEGY DESCRIPTION

The Apex Small Cap Growth strategy seeks to invest in small cap stocks with strong growth characteristics and reasonable valuations that are within sectors and industries that the team believes are poised to benefit from the current global economic environment. The manager uses both top-down thematic and macro analysis combined with bottom-up research to build portfolios.

Summary of Opinion:

- CG IAR (Consulting Group Investment Advisor Research) placed the Apex Small Cap Growth strategy on the Focus List given our high opinion of the firm, team, and investment process.
- Apex Capital Management Inc. (Apex) is a small investment manager focused on growth investing. The firm is independent and the key members of the organization have an ownership stake, which CG IAR believes translates into an investment team that is focused on the success of the firm and strategies.
- CG IAR has a favorable view of the team's dynamic process and collaborative approach, which draws upon the experience and diverse talents of the investment professionals. Additionally, the investment team that built the successful track record has experienced no turnover.
- The investment approach incorporates macroeconomic, thematic, and bottom-up fundamental research. The team looks to build portfolios that consist of "stable growth" and "emerging growth" companies in an effort to deliver excess returns while managing risk. This approach has led to strong risk-adjusted returns over time.
- The portfolio will own 60-80 stocks with a 5% position maximum. Portfolio turnover during the past 5 years has averaged nearly 70% (54% in 2013).
- The 5-member investment team manages 6 products, including the Apex SMID Growth strategy, which is the firm's flagship product at over 80% of total firm AUM. CG IAR has some concerns surrounding personnel resources and product concentration risk.

Focus List			Snapshot			
Investment Capabilities	Business Evaluation	Short-Term Performance Analysis (≤ 3Yrs)	Long-Term Performance Analysis (> 3 Yrs)	Track Record Reliability	Expected Benchmark Sensitivity	Expected Portfolio Turnover
Above Average	**Above Average**	**Above Expectations**	**Above Expectations**	**High**	High	High
Average	Average	In-Line	In-Line	Moderate	Moderate	**Moderate**
Needs Improvement	Needs Improvement	Below Expectations	Below Expectations	Low	**Low**	Low

See Opinion Description at the end of this report.

Positive Attributes

- An independent, employee owned firm.
- The success of the firm and employees is directly tied to the success of the strategies.
- A dynamic process and collaborative approach that draws upon the expertise of all investment professionals.
- The investment team that built the successful track record has experienced no turnover.
- Compelling relative and risk-adjusted performance over time.

Points to Consider

- The process combines top-down global thematic and macroeconomic components with bottom-up fundamental company analysis.
- The manager looks to construct the portfolio with "stable growth" and "emerging growth" companies in an effort balance risk. The portfolio tends to be more heavily weighted to the "stable growth" category, which have a conservative-to-traditional growth profile and could alternatively be named "established growth" companies. The "emerging growth" companies tend to skew towards the traditional-to-aggressive end of the style spectrum.
- The top-down components may lead to higher tracking error and larger sector over/under-weightings relative to the benchmark.

Areas of Concern

- The firm's expansion of product offerings has the potential to stretch resources. Apex states they will add to staff as needed and are adequately resourced. The manager also notes that they evaluate the cap spectrum from a competitive landscape.
- The firm's asset base is concentrated in the SMID Growth product, which could pose a risk if the strategy experienced a period of under-performance leading to a loss of investor traction.
- With substantial growth in the Smid and Small Cap Growth strategies, CG IAR is monitoring the portfolio for "cap creep" (an increase in market capitalization levels) and "name creep" (an expansion in the number of holdings range) as a means of absorbing additional assets as estimated capacity was revised from $1.5 billion to $2 billion.

Performance Expectations

- CG IAR believes that the strategy has the potential to out-perform in different market environments owing to the flexibility of the investment process. However, due to the team's valuation discipline, the portfolio may not keep pace in a market where excessive valuations are rewarded.
- Apex's "emerging growth" securities may offer significant upside potential although with greater risk. However, the portfolio's balance between "stable growth" and "emerging growth" companies should dampen overall volatility.

Performance Opinion

- The portfolio performed above expectations over the trailing 3-year annualized period ending 6/30/2014. Although the strategy lagged the index in 2013, Apex out-performed thus far in 2014 and posted admirable results in 2011 & 2012. Alpha is soundly positive.
- Longer-term results have been above expectations as the strategy outperformed in 2009-2012, with a high degree of alpha over the 5-year annualized period ending 6/30/2014. Despite a relatively short history in small cap growth, Apex has built a strong track record managing a SMID Growth strategy since 2000 utilizing the same philosophy and investment approach.

News Summary

- 2Q13 – Apex named as sub-advisor on the Touchstone Small Cap Growth Fund.
- 1Q12 – Apex Small Cap Growth research status changed from Approved List to Focus List.
- 4Q08 – Apex hired an additional marketing professional.
- 2Q08 – Sunil Reddy joins Apex as a Portfolio Manager.
- 2Q07 – Apex hires a Director of Marketing.

Additional Analyst Comments

- The manager's market capitalization purchase range is between $150 million to $3.5 billion with a sweet spot of $500 million to $1.5 billion. They will let successful positions appreciate up to approximately $5 billion at-market.
- The holdings range may breach the upper limit in instances where the manager wants to invest in higher risk areas of the market (i.e. biotech) and takes a "basket approach", holding more positions at reduced weights.
- Since 2013, the team structure shifted from a generalist format to specific sector coverage that plays to the strengths of the investment professionals. The major growth sectors have dual-coverage (technology, health care, and consumer discretionary). Portfolio managers also serve in an analyst capacity.
- In the event that CIO Nitin Kumbhani is incapacitated, analyst Kamal Kumbhani (his wife) and PM Mike Kalbfleisch would decide who would succeed Nitin as CIO. In terms of eventual ownership succession, Mrs. Kumbhani would also assume her husband's ownership stake. CG IAR is comfortable that the team has the depth of personnel to head the firm in terms of business and investment leadership, however additional hires would likely be required to absorb research coverage responsibilities.
- Apex has the ability to purchase Exchange Traded Funds (ETFs). This is a rare occurrence and has been executed once in the history of the strategy. In the first quarter of 2009, as part of the manager's macroeconomic view, the manager wanted to invest in financial banks, but did not want to take the stock specific risk. Therefore, Apex purchased an approximate 2% position in a small cap regional bank ETF.
- According to Apex, the typical portfolio overlap between the Small Cap Growth and SMID Growth strategies has been approximately 30%.
- Economic Sector Constraints:

Benchmark weight	Apex Minimum	Apex Maximum
Greater than 20%	Half Weight	40%
10-20%	0%	Double Weight
Less than 10%	0%	Greater of double weight +5% or 15%

Additional News Summary

- None.

Portfolio Traits

Equity	
Range of Holdings	60-80
Maximum Position Size	5% Maximum
Econ Sector Constraints	See Additional Comments
Tracking Error Target	No Target
Typical Annual Turnover	70%-125%. Turnover tends to be higher at market inflection points. In recent years, it has averaged 70% per annum.
Invests in ADRs	15% Maximum
Invests in ETFs	Yes, but rare.
Invests in Derivatives	No
Invests in IPOs	No
Liquidity Constraints	Typically 5 days trading volume.
Maximum Cash	5%
Typical Cash Position	0%-5%
Est. Product Capacity	$2 billion
Source: Apex	

Investment Capabilities Overview

Portfolio Management Team

- The investment team consists of four portfolio managers and one analyst. The portfolio managers also have analyst coverage responsibilities.
- Nitin Kumbhani serves as the firm's CIO. Mr. Kumbhani founded the firm in 1987 after selling his ATM technology software company.
- In 2000, the firm added PMs Mike Kalbfleisch and Jan Terbrueggen who come from investment backgrounds with commonality at John Nuveen & Co. Messer's Kalbfleisch and Terbrueggen both have nearly 30-years of investment experience.
- The latest addition to the investment team was PM Sunil Reddy in 2008, who has a background in fixed income and covers the technology and financial sectors. He has nearly 25-years of investment experience.
- Analyst Kamal Kumbhani joined the firm in 1994 and has over 20-years of investment experience. She mainly provides coverage in the health care sector.

Investment Philosophy & Process

- Apex focuses on identifying companies with strong growth characteristics and reasonable valuations that are within sectors and industries that the team believes are poised to benefit from the current global economic environment.
- New ideas are generated from the firm's top-down global themes and quantitative screening. Global secular themes are continuously established to identify growth opportunities that may offer investment tailwinds.
- The firm screens for key characteristics considered in analyzing each type of company. This is then followed by fundamental analysis with the goal of confirming sustainable growth characteristics.
- Apex also seeks companies with a global strategy & position, management quality, a catalyst that confirms the sustainability of growth, and reasonable valuations relative to history and peers.
- Apex seeks to balance the portfolio with "stable growth" and "emerging growth" companies. The range in allocation between stable growth and emerging growth companies is a function of the investment team's overall view of the environment (risk) and their bottom-up, fundamental research. On average, the portfolio is comprised of a 70/30 mix of stable/emerging growth companies, however a more offensive posture would be a 60/40 split, or a more defensive posture at 80/20.
    - Key characteristics considered for stable growth companies include; earnings growth acceleration, consistency in earnings growth, profitability, cash flow generation, financial leverage, and improving operating efficiency.
    - Factors evaluated for emerging growth companies include; revenue growth acceleration, positive earnings revisions, unique product niches, a growing addressable market, and whether the market underestimates its potential.
- Portfolios are constructed by evaluating the current economic and investment environment to determine appropriate sector and security weights.

Summary of Investment Capabilities Opinion

- CG IAR has a favorable opinion of the team based upon their experience and the diverse talents that each member brings to a dynamic investment process. For example, Mr. Terbrueggen has experience in top-down economic analysis, which helps to shape the firm's macro views and themes. Both Messrs Kumbhani and Reddy have backgrounds in the technology industry, and Mr. Reddy has fixed income investment experience. Mr. Kalbfleisch has an accounting background. Ms. Kumbhani has focused on biotechnology and health care since 1994, with a degree in chemistry, physics, and math.
- All members of the investment team contribute to all aspects of the process. Although Mr. Kumbhani has ultimate veto authority, CG IAR views this as a team approach with all individuals collectively contributing to the added value overtime.
- While an investment idea does not have to meet a theme, CG IAR believes the team's focus on ideas backed by secular growth opportunities has been a key component to their success.
- While CG IAR believes the team's focus and execution on macro, thematic, and bottom-up research has historically led to consistent relative returns, factor bets also have the potential for amplifying the downside if the market views a given theme unfavorably.

Other Key Items

Decision-Making

- Apex operates as an investment committee and all decisions are made on a consensus basis. Nitin Kumbhani is the CIO and has veto authority, which according to Apex is rarely used in practice.

Sell Process

- Stocks are reviewed for sale for valuation reasons, fundamental deterioration, for a better idea, or in adherence to portfolio construction parameters.
- Stock performance is also measured relative to the index over a trailing four-quarter period and is reviewed if it falls to the bottom two deciles in screening.

Track Record Reliability

- CG IAR views the track record reliability as high given that all five team members have been on the strategy since its inception in January 2009.
- While we would note that the track record was executed on a small asset base, Apex has built a compelling track record managing a SMID Growth strategy since 2000 utilizing the same investment philosophy and approach.
- CG IAR has confidence in the team's ability to execute the investment process in the small cap space going forward.

Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Nitin Kumbhani	Chief Investment Officer/PM	Consumer Discretionary, Tech, Health Care			1987	1987	2000
Jan Terbrueggen	Portfolio Manager	Energy, Materials	●	Xavier University	1985	2000	2000
Mike Kalbfleisch, CPA	Portfolio Manager, CCO	Industrials, Consumer Staples	●		1985	2000	2000
Sunil Reddy	Portfolio Manager	Consumer Discretionary, Tech, Financials	●	Case Western Reserve University	1987	2008	2008
Kamal Kumbhani	Research Analyst	Health Care, Biotechnology		University of Madras	1987	1994	2000

Source: Apex

Other Key Professionals

Investment Team Overview	Position	Area of Responsibility	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Mark Harrell	Director of Marketing	Business Development			1987	2007	N/A
James Brown	Director of Operations	Operations and Trading		Wright State University	1995	2005	N/A

Source: Apex

Primary Functions of Key Professionals

Name	Security Selection	Security Research	Portfolio Construction	Trading	Client Service	Business Management
Nitin Kumbhani	●	●	●			●
Jan Terbrueggen	●	●	●	●		
Mike Kalbfleisch	●	●	●	●		●
Sunil Reddy	●	●	●			
Kamal Kumbhani		●				
Mark Harrell					●	●
James Brown				●		●

Source: Apex

Business Structure Overview

History/Ownership

- Apex Capital Management, Inc. was founded in 1987 by Nitin (Nick) Kumbhani as Kumbhani & Company initially offering its large cap growth strategy.
- In 2000, the firm brought on additional members to the investment team, changed its name to Apex Capital Management, Inc., and launched the Apex SMID Growth strategy.
- Mr. Kumbhani is the majority owner of the firm, and the three portfolio managers and Director of Marketing are minority owners.

Business Plan

- Apex manages products across the capitalization spectrum. This includes all cap, large cap, mid cap, small/mid cap, small cap and balanced growth products. Most of the assets are in the SMID Growth and small cap growth strategies. The firm's most recent product addition has been an international ADR strategy at the request of an institutional client. There are no current plans for any other new strategies.
- To expand distribution, the firm launched a small/mid cap growth mutual fund in 2012 and began sub-advising a small cap growth mutual fund in 2013 for Touchstone Advisors.
- The firm's goal is to leverage existing resources to grow assets, and carefully invest in resources including people, technology, and other services as needed.

Legal/Compliance

- There are no legal, regulatory, or civil items noted on the firm's ADV.
- The SEC conducted a routine review in February 2005. There were no material findings. Apex has worked to address any suggested areas of improvement.
- According to Apex, there is no outstanding litigation against the firm.

Summary of Business Structure Opinion

- CG IAR views favorably that the firm is independent and key individuals have ownership. We believe the investment team has a vested interest in the product's success.
- Apex has seen growth in assets which has enhanced firm stability. The firm has added to its operational infrastructure and plans to continue this build out with future growth. For example, the firm hired a dedicated trader to relieve the PMs of this function.
- While CG IAR prefers the separation of investment and compliance functions, PM/CCO Mike Kalbfleisch is assisted by other members of the team and a third party provider. The firm formalized their relationship with National Regulatory Services for out-sourced compliance services.
- The firm has been careful about additions to the investment team, and states they opportunistically look for talented individuals that may fit within their organization on an ongoing basis. CG IAR views positively the firm's focus on preserving the culture of the firm with growth.

Other Key Factors

Incentives/Alignment of Interests

- Compensation consists of a salary and bonus, which is based on the firm's profitability.
- All portfolio managers have equity ownership.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Nitin Kumbhani	69%
Jan Terbrueggen	11%
Michael Kalbfleisch	10%
Sunil Reddy	5%
Mark Harrell	5%
Publicly Traded	**Ticker Symbol**
No	

Source: Apex

Assets Under Management ($ Millions)

Year	Firm*	Strategy*
2Q14	$4,239	$457
2013	$3,934	$268
2012	$1,999	$50
2011	$1,207	$31
2010	$1,000	$12
2009	$582	$9

Source: Apex

**inclusive of all investment vehicles as well as assets under advisement or model-driven assets*

OPINION OVERVIEW DESCRIPTION

Investment Capabilities - Represents CG IAR's opinion of the investment manager's investment capabilities with respect to the product under evaluation. This section covers the areas of quality of investment professionals, portfolio management, research and process execution. As these areas are not mutually exclusive, but rather interrelated, it is important to render a cohesive opinion on these areas of an organization. This section has three potential opinion outcomes: Above Average, Average and Needs Improvement. Above Average conveys that CG IAR has a high degree of confidence and conviction in a manager's investment capabilities. An opinion of Average denotes that, while CG IAR has a generally favorable view, it may have some concerns about the investment manager's investment capabilities. An opinion rating of Needs Improvement generally indicates that CG IAR has material concerns about the investment manager's overall investment capabilities. For example, this could be the result of sizable personnel departures, poor execution of stated investment discipline or a limited research effort.

Business Evaluation - Represents CG IAR's opinion of the state of the investment manager's overall business condition. This area reviews items such as ownership structure, trends in assets under management, legal and/or compliance issues, investment professional incentives and trading policies. This area has three potential opinion outcomes: Above Average, Average and Needs Improvement. Above Average conveys that CG IAR has a high degree of confidence and conviction in a manager's overall business structure and believes that there are limited to no material issues. An opinion of Average denotes that, while CG IAR has a generally favorable view, it may have some concerns about the investment manager's business structure. An opinion rating of Needs Improvement generally indicates that CG IAR has material concerns about the investment manager's overall business structure. For example, this could be the result of what we believe to be material legal and/or compliance issues, material asset loss, ownership issues or ineffective incentives for the investment professionals.

Short-Term & Long-Term Performance Analysis - The opinion for performance is broken into two components: 1) Short-Term Performance Analysis represents CG IAR's opinion of the investment product's performance typically over a time period of the trailing three years or less, 2) Long-Term Performance Analysis represents CG IAR's opinion of the investment product's performance typically over a time period of more than the trailing three years. These areas have three potential opinion outcomes: Above Expectations, In-Line and Below Expectations. Above Expectations conveys that CG IAR believes the investment product has performed better than expected given investment biases and market conditions, while an opinion of In-Line denotes that CG IAR believes the investment product has performed as expected given investment biases and market conditions. A rating of In-Line should not be interpreted negatively, but rather that the investment product is performing as expected. An opinion rating of Below Expectations generally indicates that CG IAR has concerns about the investment product's overall investment performance given our knowledge of the investment manager's process and the overall market conditions.

Track Record Reliability - Represents CG IAR's opinion of the overall integrity of the investment performance displayed to clients or potential clients. This area takes into consideration items such as portfolio manager tenure on a respective strategy, construction of the performance composite, and consistency in the execution of a stated investment process. This area has three potential opinion outcomes: High, Moderate and Low. High conveys that CG IAR believes the investment performance track record has a high degree of integrity and is representative of what investors could expect over time, while an opinion of Moderate denotes that CG IAR may have some concerns as it relates to the historical performance track record. An opinion rating of Low generally indicates that CG IAR has material concerns about the investment product's historical performance track record. For example, if an investment product has had a long standing portfolio manager that has delivered solid performance results over the last five years relative to a benchmark and the portfolio manager is replaced by a new portfolio manager that instills a new investment process, CG IAR may consider the historical performance track record to be non-representative of the new investment discipline.

Expected Benchmark Sensitivity - Represents CG IAR's opinion of how closely an investment product's performance is expected to "track" the investment performance of CG IAR's designated performance benchmark for a particular investment product. This area evaluates the historical investment performance tracking of a given investment product relative to a respective benchmark as well as the investment manager's current approach to active portfolio management. In evaluating benchmark sensitivity, CG will use relevant statistical measures such as tracking error and R-Squared as well as portfolio construction guidelines such as economic sector constraints and benchmark relative position sizing. This area has three potential opinion outcomes: High, Moderate and Low. In CG IAR's opinion, High conveys that a product is anticipated to be managed with a high degree of emphasis on its benchmark with relatively tight control over the product's active weights relative to that benchmark. High benchmark sensitivity does not mean wide deviations from the benchmark will not happen, but that the investment manager seeks to reduce them. Moderate conveys that a product's management is anticipated to have some amount of benchmark sensitivity, but is able to make meaningful, but controlled, allocations away from a benchmark. Low denotes that a product places little to no emphasis on its assigned benchmark. Performance from a month-to-month and year-to-year basis may deviate significantly from its benchmark.

Expected Portfolio Turnover - Represents CG IAR's opinion of how actively the portfolio is managed from the perspective of trading activity (purchases, sales, additions, trims, etc.). We do not view these ratings positively or negatively, but render an opinion for this category so Financial Advisors, Private Wealth Advisors, Private Bankers and clients have some idea as to the overall level of activity that takes place in a given portfolio. High activity may result in a portfolio that is less tax-efficient for taxable clients, whereas Low activity may result in a more tax efficient portfolio for taxable clients. This area has three potential opinion outcomes: High, Moderate and Low. In CG IAR's opinion, High conveys an investment product that is likely to have more than 90% turnover on an annual basis, while Moderate indicates expected annual portfolio turnover in the range of 30% - 90% and Low indicates expected annual portfolio turnover of less than 30%.

DEFINITIONS

Sub-Styles: Subjective classifications designed to assist with manager selection and performance evaluation based on Consulting Group Investment Advisor Research ("CG IAR") understanding of a manager's long-term investment philosophy and portfolio structuring biases and techniques. At points in time managers may display attributes of other sub-style classifications, and these classifications may change due to changes in the capital markets, evolution of performance benchmarks, industry trends, or changes involving a manager's personnel or process.

Traditional Growth: Generally invest in a mix of lower and higher growth companies, portfolios and performance likely to be more highly correlated to the respective growth benchmark than peers and may demonstrate the flexibility at times to take on characteristics of more Conservative or Aggressive growth peers.

Russell 2000 Growth - Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

GLOSSARY OF TERMS

Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization – the total capitalization of the portfolio divided by the number of securities in a portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) – mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) – mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Return on Equity (ROE) – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Sharpe Ratio – measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation – quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Turnover – measures portfolio trading activity, which is computed by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

IMPORTANT DISCLOSURES

Report for Use Only in Investment Advisory Programs
This report is only to be used in Morgan Stanley Wealth Management investment advisory programs and not in connection with brokerage accounts.

CG IAR Services Only Apply to Certain Investment Advisory Programs
CG IAR evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Wealth Management's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any CG IAR status changes even though it may give notice to clients in other programs.

Focus List, Approved List and Tactical Opportunities List; Watch Policy
CG IAR uses two methods to evaluate investment products in applicable advisory programs: Opinion Research (and investment products meeting this research standard are described as being on the Focus List) and Access Research (and investment products meeting this research standard are described as being on the Approved List). In general, Opinion Research entails a more thorough evaluation of an investment product than Access Research. Sometimes an investment product may be evaluated using the Opinion Research process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. CG IAR may also determine that an investment product no longer meets the criteria under either research process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

CG IAR has a 'Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if CG IAR identifies specific areas that (a) merit further evaluation by CG IAR and (b) may, but are not certain to, result in the investment product becoming "Not Approved." The Watch period depends on the length of time needed for CG IAR to conduct its evaluation and for the investment manager or fund to address any concerns. CG IAR may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" next to the "Status" on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a paper entitled "Manager Research and Selection: A Disciplined Process."

No Obligation to Update
Morgan Stanley Wealth Management has no obligation to update you when any information or opinion in this report changes.

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Strategies are sometimes available in Morgan Stanley Wealth Management investment advisory programs both in the form of a separately managed account ("SMA") and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor or Private Wealth Advisor can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program.

Consider Your Own Investment Needs

This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Performance and Other Portfolio Information

General

Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

Benchmark index

Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment (such as with an investment manager or in a fund) 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 product.

Other data

Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings

Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data

Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

Asset Class and Other Risks

Investing in ***stocks***, ***mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

Nondiversification: For 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.

IPO securities: Investment in initial public offerings (IPO) exposes the portfolio to additional risks associated with companies that have little operating history as public companies, as well as to the risks inherent in those sectors of the market where these new issuers operate.

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.

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.

No Tax Advice

Morgan Stanley Wealth Management and its affiliates do not render advice on tax and tax accounting matters to clients. This material was not intended or written to be used, and it cannot be used or relied upon by any recipient, for any purpose, including the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

Please consult your personal tax and/or legal advisor to learn about any potential tax or other implications that may result from acting on a particular recommendation.

Conflicts of Interest

CG IAR's goal is to provide professional, objective evaluations in support of the Morgan Stanley Wealth Management investment advisory programs. We have policies and procedures to help us meet this goal. However, our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by CG IAR come from a variety of sources, including our Morgan Stanley Wealth Management Financial Advisors and their direct or indirect managers, and other business persons within Morgan Stanley Wealth Management or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, Morgan Stanley Wealth Management or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds. For example, a Financial Advisor may suggest that CG IAR evaluates an investment manager or fund in which a portion of his or her clients' assets are already invested. While such a recommendation is permissible, CG IAR is responsible for the opinions expressed by CG IAR. See the conflicts of interest section in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management for a discussion of other types of conflicts that may be relevant to CG IAR's evaluation of managers and funds. In addition, Morgan Stanley Wealth Management, MS&Co., managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts, and managers in various advisory programs. Morgan Stanley Wealth Management, managers, MS&Co., and their affiliates receive compensation and fees in connection with these services. Morgan Stanley Wealth Management believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account.

KENNEDY CAPITAL MANAGEMENT, INC.
SMALL CAP FUNDAMENTAL GROWTH

Address:	10829 Olive Boulevard St. Louis, MO, 63141
Firm Type:	Independent Reg. Inv. Advisor
Legal Structure:	Subchapter S
Year Founded:	1980
Firm GIPS Compliant:	Yes
Firm/Product Assets:	$ 5,664.29 Million / $ 24.93 Million
Firm/Product Accounts:	440 / 10
Parent Company:	--
Investment Style:	Growth
Market Capitalization:	Small Capitalization (>500 $Million - <2 $Billion)
Decision Making:	Bottom-Up Stock Selection
Portfolio Manager:	Mr. John Rackers
Manager Tenure:	1/2008
Mgr. Experience:	1991
Product Contact:	Mr. Chuck Bryant
Phone:	314-432-0400

		Account Size	Annual Fees
Performance Incentive Fee:	No	US$ 1 Mill	--
Individual Min Annual Fee:	$12,500	US$ 5 Mill	--
Individual Min Account Size:	$5,000,000	US$ 10 Mill	--
Offered As Mutual Funds:	No	US$ 25 Mill	--
Offered As Commingled Funds:	No	US$ 50 Mill	--
Commingled Min Annual Fee:	--	US$ 100 Mill	--
Commingled Min Account Size:	--	US$ 200 Mill	--

	MRQ	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	Incept
Manager	0.08	51.90	25.96	-1.68	36.11	64.36	-40.07	--	--	--	--	15.82
Bnchmrk	1.72	43.30	14.59	-2.91	29.09	34.47	-38.54	7.05	13.35	4.15	14.31	8.88
Excess	-1.64	8.59	11.38	1.22	7.02	29.89	-1.53	--	--	--	--	6.94
90 TBill	0.01	0.05	0.08	0.06	0.14	0.15	1.27	4.42	4.88	3.30	1.44	0.27

PERIOD	ROR	STDEV	ALPHA	BETA	RSQR	TRCKERR	SHARPE	INFORATIO
3 Yrs	21.64	23.42	4.62	1.16	0.96	5.58	0.92	1.28
4 Yrs	27.31	21.79	3.27	1.12	0.95	5.36	1.25	1.15
5 Yrs	27.69	21.66	4.29	1.12	0.94	5.71	1.27	1.26
6 Yrs	18.58	28.11	5.69	1.14	0.96	6.80	0.66	1.06
7 Yrs	--	--	--	--	--	--	--	--
8 Yrs	--	--	--	--	--	--	--	--
9 Yrs	--	--	--	--	--	--	--	--
10 Yrs	--	--	--	--	--	--	--	--
Inception	15.82	27.90	5.92	1.14	0.96	6.58	0.56	1.06

GICS Sector Breakdown: 6/2014	%
Materials	1.57
Energy	3.93
Consumer Staples	5.07
Consumer Discretionary	18.11
Industrials	16.98
Utilities	--
Health Care	20.02
Information Technology	24.31
Telecommunications Services	--
Financials	5.73
Cash	4.28
Other	--

Equity Characteristics: 6/2014	%
Beta(5 Year)	--
Dividend Yield	0.23
5 Year EPS Growth	22.31
Price/Book	4.03
P/E (Proj next 12 mths)	18.95
Return on Equity	9.50
Market Capitalization:	
Wght Avg ($ MM)	1577.79
Median ($ MM)	975.87
Debt/Equity	--
Ann Fiscal YTD Turnover	--
SEC-30-Day Yield	--

Ten Largest Holdings:6/2014	%
CASH RESERVES - USD	4.20
FLAMEL TECHNOLOGIES SA	3.20
LANNET INC COM	2.60
CARRIZO OIL & GAS INC COM	2.30
XOOM CORP COM	2.20
MARCHEX INC CL B	2.10
FRESH MKT INC COM	2.10
CHUYS HLDGS INC COM	2.00
FORTINET INC COM	1.90
ARCTIC CAT INC COM	1.90

Firm Representative Client List
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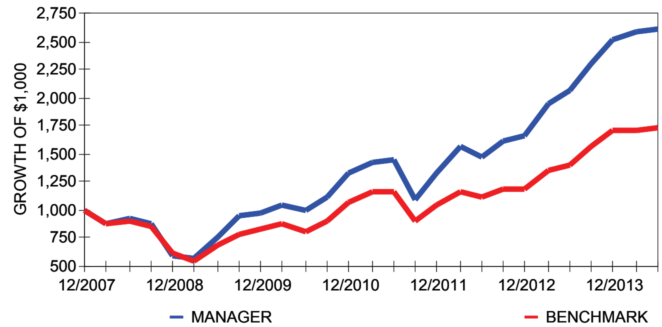

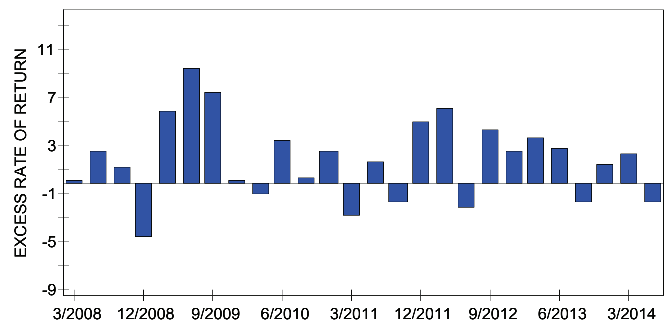

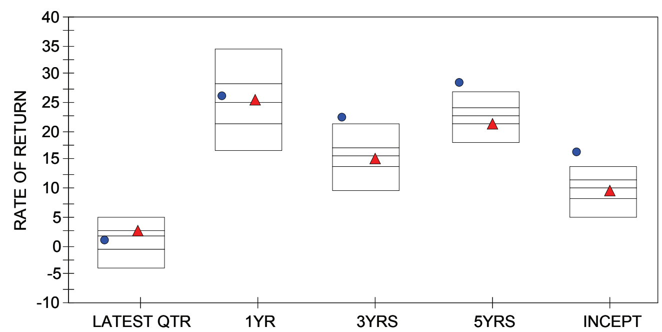

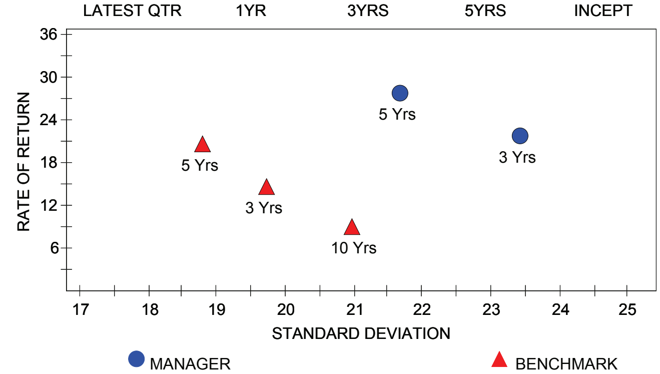

	RATE OF RETURN			GROWTH OF $1,000		
PERIOD	MANAGER	BENCHMARK	EXCESS	MANAGER	BENCHMARK	PREMIUM
1 Yr	25.59	24.73	0.86	$1,256	$1,247	$9
2 Yrs	32.63	24.20	8.44	$1,759	$1,542	$217
3 Yrs	21.64	14.49	7.15	$1,800	$1,501	$299
4 Yrs	27.31	21.14	6.17	$2,627	$2,153	$473
5 Yrs	27.69	20.50	7.19	$3,394	$2,540	$854
6 Yrs	18.58	11.38	7.20	$2,780	$1,909	$871
7 Yrs	--	7.90	--	--	$1,702	--
8 Yrs	--	8.97	--	--	$1,989	--
9 Yrs	--	9.58	--	--	$2,279	--
10 Yrs	--	9.04	--	--	$2,376	--
Inception	15.82	8.88	6.94	$2,598	$1,739	$859

PERIODS ENDING: JUNE 30, 2014, SINCE INCEPTION: DECEMBER 31, 2007
BENCHMARK: RUS 2000 GROWTH, UNIVERSE: PSN SMALL CAP GROWTH
ALL PERFORMANCE USING GROSS OF FEES

*SEE SECOND PAGE FOR DISCLAIMER

KENNEDY CAPITAL MANAGEMENT, INC.
SMALL CAP FUNDAMENTAL GROWTH

Equity Personnel	Total	Firm Personnel	Total
Portfolio Managers	1	Portfolio Managers	8
Research Analysts	15	Research Analysts	15
Traders	1	Traders	3
Marketing	6	Marketing	6
Total Equity	23	Client Service	2

EQUITY INVESTMENT PHILOSOPHY - We are fundamental, bottom-up stock pickers and seek to assess the intrinsic value of a business, based on our analysis of a company's operations and financials. In addition to focusing our attention on the smaller end of the equity universe where small companies with solid growth prospects are often overlooked, we specifically look for businesses that can create value while growing rather than simply grow revenue for its own sake. We fundamentally define growth as that of assets, not revenue; value creation is derived from investing in assets and earning a return above the assets' cost of capital. Our search for ideas is thus focused on finding recursive business models of investing in assets that can produce stable or increasing rates of return, allowing the cash flow to be invested in additional assets that grow the business.

INVESTMENT DECISION-MAKING PROCESS - KCM utilizes a fundamental, bottom-up research process that relies on internal sources to generate potential buy candidates. We do this through the ongoing review of news and results across the investable universe on an industry-by-industry, analyst-by-analyst basis and the continual monitoring of trends and factors that would impact company fundamentals. Our team of 15 industry-specific research analysts thus seeks to become experts in their given industries and are charged with identifying the most attractive equities within each group. We do not rely significantly on quantitative screens or models for ideas. Our process is time-consuming and labor intensive. New buys Criteria: While no set of criteria encompasses every investment opportunity, our process focuses on equities that meet the following characteristics: - Market capitalization representative of the Russell 2000® Growth Index - Asset Growth greater than the Russell 2000® Growth Index - Growth rates for revenue, earnings and cash flows above the Russell 2000® Growth Index - Valuations at or below the benchmark - Solid balance sheets with a growing investment base and strong or improving cash flow returns - Sustainability of competitive advantage and principled, value-creating management Sell Discipline: We regularly translate the current price of a security into a measure of the implied future returns on the invested capital base of the company. We will look to reallocate assets to other, more attractive situations when valuations reach levels at or above our assessment of reasonable future returns. We will also likely sell a position if a company's position suggests a trajectory of deteriorating fundamentals and thus a change in our investment thesis, or if the company's characteristics carry it out of our target universe (for example, if it outgrows our universe).

ORGANIZATION AND OWNERSHIP - Kennedy Capital Management, Inc. (KCM) is a registered Investment Advisor specializing in the small-to-mid cap asset classes; 100% of company revenue comes from providing investment advisory services. KCM is not an affiliate or subsidiary of another organization. KCM was registered under the Investment Advisory Act of 1940 in April 1980. KCM's overall investment approach is labor intensive and "bottom-up," based on identifying inefficiencies or trends in the marketplace that other investors may have overlooked. Once the universe is narrowed, the firm does extensive fundamental analysis and valuation work – focusing on companies generating superior returns on invested capital. The firm presently employs 53 people and manages approximately $5.7 billion as of June 30, 2014 (Discretionaru & Non-Discretionary Model Assets). Employees and Directors owns 100% of the equity of the firm.

Offered WRAP/TAMP Program: