Morgan Stanley

APRIL 2019

DEAR FELLOW SHAREHOLDERS,

Morgan Stanley's business and financial results in 2018 were the best in our history. Our mix of businesses not only provided earnings stability but also earnings growth. We will continue to grow our business by executing our strategy and investing in our people and culture. While a robust strategy can cause a company to be successful at any point in time, a strong culture ensures enduring success over decades.

Morgan Stanley reported record revenues, pre-tax profit[1] and net income[2] for 2018. While we experienced a weaker fourth quarter as the market deteriorated near year end, Firmwide net revenues were over $40 billion for the year. Each of our businesses delivered a strong performance, with Investment Banking and Wealth Management reporting their best revenues ever. Return on equity of 11.5%[3] was in the range we outlined at the beginning of the year.

By building complementary franchises in Institutional Securities, Wealth Management and Investment Management, we shaped Morgan Stanley over the last decade to derive a greater share of revenues from relatively stable[4] businesses. In 2018, these relatively stable sources provided well over half of our Firmwide revenues.

With a strong and diverse global franchise in place, our management team will continue to drive forward our strategic objective of generating sustained higher returns. We will do this by expanding our competitive leadership and making appropriate investments in our businesses, while managing expenses and capital.

REFER TO END NOTES ON THE LAST PAGE.

LARRY LETTERA / CAMERA 1

JAMES P. GORMAN
CHAIRMAN AND CEO

The key to our long-term success will be keeping our culture strong and developing the talent and leadership that will guide this Firm forward.

EXECUTING OUR STRATEGIC PRIORITIES

The Board of Directors and executive management team evaluate our strategy each year and refine our goals and priorities to ensure we are working for the long-term benefit of our shareholders. Last year, we established clear strategic objectives for 2018 and 2019, almost all of which have been accomplished in the full year 2018. Our strategic initiatives are focused on the dual mission of driving earnings growth and enhancing the stability of those earnings; and within each business segment, we are creating performance objectives and specific action steps to achieve this dual mission.

Our Investment Banking franchise consistently ranks in the top two of the global league tables in advising on mergers and acquisitions and underwriting initial public offerings. 2018 was no exception, and the business reported revenues of over $6 billion. Our Equity Sales & Trading business, with revenues of nearly $9 billion, finished the year No. 1 globally in reported net revenues for the fifth year in a row,[5] and in Fixed Income Sales & Trading we have a credible and critically-sized business that reported $5 billion in revenues. Our Institutional Securities businesses have gained wallet share over the past five years, and we are confident in our ability to capitalize on opportunities. We will invest in product and geographic offerings that support our client base while maintaining our footprint.

On a regional basis, we expect Asia to play a greater role in global growth over the next decade. Our existing footprint in Institutional Securities in Asia, coupled with our growth initiatives, will position us to capitalize on this expected regional growth and wealth creation, particularly as capital markets become a more important source of financing.

WINNING IN THE MARKETPLACE
2018 HIGHLIGHTS

- No. 1 in Equity Sales & Trading revenue wallet share[5]
- No. 2 Advisor on global announced mergers and acquisitions[7]
- No. 1 Advisor on global completed mergers and acquisitions[7]
- No. 1 Underwriter of global equity offerings[7]
- No. 1 Underwriter of global initial public offerings[7]
- No. 1 in managed accounts, with $1,046.2 billion in assets[8]
- No. 1 in Barron's Top 100 Financial Advisors, with 38 listings
- Lipper's Fixed Income Group of the Year (Large Company) for 3 years in a row and Best Global and International Multi-Cap Growth Fund (3- and 5-year periods)
- Over 80% of mutual fund assets in 4- and 5-star Morningstar rated funds[9]

And in Japan — the world's third largest economy — our unique partnership with MUFG now has the second largest share in that market, surpassing all other foreign players.

Our Wealth Management business continues to demonstrate stability of revenues, benefiting from scale and secular trends such as the shift to fee-based assets. In 2018, the business reported revenues of over $17 billion and the pre-tax margin[6] was 26.2%. We expect the industry trend of increasing the allocation of assets toward advisory to continue in the medium term, albeit, at a slower pace. In addition, we have now developed the technology that creates a compelling rationale for clients to consolidate assets with us, which will also be a meaningful growth opportunity going forward. We are managing $2.3 trillion in client assets — a demonstration of the trust placed in us. This year, we will continue our focus on revenue growth, while maintaining the 26%–28% pre-tax margin[6] goal we outlined last year.

Investment Management is a business positioned for growth, and we are executing on that opportunity. Last year, we reported revenues of $2.7 billion led by asset management fee growth. We are seeing strong investment performance across the business lines while managing client partnerships, distribution and product innovation. While the focus remains on these organic growth drivers, a key part of the strategy also includes inorganic growth — driven by new talent, team lift-outs and acquisitions in areas where we believe we can deliver differentiated value to our clients.

REFER TO END NOTES ON THE LAST PAGE.

EXECUTING OUR STRATEGY
2018 HIGHLIGHTS

- 26.2% pre-tax margin[6] in Wealth Management
- $2.3 trillion in Wealth Management client assets
- Combined U.S. bank subsidiary assets[10] increased to $216.9 billion
- Fixed Income Sales & Trading full year revenues of $5.0 billion
- Equity Sales & Trading revenue wallet share of 20.7%[5]
- 9% asset management revenue operating growth in Investment Management[11]
- 72% Firmwide expense efficiency ratio[12]
- $6.8 billion of total capital return

In the past year and a half, we announced two acquisitions as we saw opportunities for growth — one in Investment Management that we completed last year and one in Wealth Management earlier this year, and we are excited by the long-term opportunities these acquisitions present. Rarely does an individual deal fundamentally change the business model and long-term positioning of a company, though the Smith Barney transaction a decade ago did just that; more often, acquisitions are best done when they fill in a specific gap in product or talent or geography, or they provide a mechanism for bringing together parts of the Firm which when combined allow us to compete very effectively. Mesa West Capital LLC filled in a product gap by adding a real estate credit platform to Investment Management's existing investment strategies, and Solium Capital Inc. will expand our workplace solutions offering in Wealth Management while helping grow our customer base by providing access to younger, emerging investors. We are focused on similar bolt-on acquisitions in our Wealth and Investment Management businesses.

Underpinning our strategic priorities in each of the businesses is rigorous expense and capital management. Over the last three years, we exceeded our expense efficiency targets, and our goal is to continue to drive savings going forward. Our total capital return in 2018 was $6.8 billion, and we will return excess capital to shareholders with the aim of a 100% payout ratio going forward, subject to regulatory approval and any acquisition opportunities that may come our way.

CULTURE AND VALUES ARE KEY TO ENDURING SUCCESS

In addition to the right strategy, long-term and enduring success lies in having a strong culture and talented employees who live our values. At Morgan Stanley, our culture guides our employees, and our values inform everything we do: we have a commitment to putting clients first, leading with exceptional ideas, doing the right thing, and giving back. These values honor both our history and our aspirations for the future.

A diverse employee base and a talented leadership pipeline are critical to delivering the best of the Firm to our clients. We are committed to an inclusive work environment where all employees can thrive. Our commitment to diversity is expressed as belonging as much as inclusion. Each employee, irrespective of their race, gender or background, must feel that they belong at this Firm and that their values are recognized and respected. We are embedding this sense of belonging in the Firm's culture — including through the Culture Conversations we have with employees each year, through the annual performance review process, and as part of the onboarding of new employees into the Firm. We recognize that we have significant work to do to achieve our diversity goals, and that it requires efforts at every level of the Firm in order to deliver results over the long term. We have numerous initiatives aimed at providing our employees opportunities for leadership roles and empowering them to achieve the visibility and recognition they deserve. Among the employees promoted in our most recent Managing Director class, an increased proportion from the prior year were women and multicultural candidates. We also held the first global conference for our women Managing Directors last year, designed to focus on our women leaders and deepen our efforts to make Morgan Stanley the employer of choice for women all over the world.

Our long-term success will also be driven by the depth of talent and leadership across our Firm. We have an experienced management team, and our businesses have a deep bench of talent. The average tenure of our Operating and Management Committees is 23 years and 19 years, respectively.

FORTIFYING CAPITAL AND ENHANCING LIQUIDITY
2018 HIGHLIGHTS

- Common equity tier 1 capital ratio standardized (full phased in) of 16.9% as of 4Q 2018, with $71.7 billion in common equity
- $249.7 billion global liquidity reserve as of 4Q 2018

We have also increased the participation of women in our Operating Committee, our Management Committee and the Board of Directors over the past two years. I have great confidence in our senior leaders, and we are excited about the future.

Last week we announced the retirement of Colm Kelleher, President of Morgan Stanley, following his nearly 30 years at the Firm. Colm has been an enormous asset to the Firm and a true partner to me personally. Under his leadership we advanced collaboration across all of our businesses. I would like to thank him for his tremendous contributions over many decades, and for his business leadership and his commitment to promoting our culture.

LOOKING AHEAD

While we can never perfectly predict what market environment we will face, or what regulatory or political changes are ahead, what we can do is ensure we have the best qualified people, working together as true colleagues and bringing the right values to work every day. I am proud of our 60,000 employees and want to thank them for their hard work and commitment to making the right decisions on behalf of our clients and the Firm. We are focused on supporting our clients and are prepared to respond to market environments appropriately. Over the long term, we are excited about the growth opportunities across the global economy.

OUR STRATEGY

WHAT WE DO
Advise, originate, trade, manage and distribute capital for governments, institutions and individuals, and always do so with a standard of excellence.

HOW WE DO IT
Execute in a way that is consistent with our values and, whenever possible, deliver more than one part of the Firm.

WITH WHAT RESULT
Deliver strong returns for our shareholders, build long-term value for our clients and offer highly attractive career opportunities for our employees.

OUR CORE VALUES

Since our founding in 1935, Morgan Stanley has pledged to do first-class business in a first-class way. Underpinning all that we do are four core values.

PUTTING CLIENTS FIRST

Keep the client's interest first.

Work with colleagues to deliver the best of the Firm to every client.

Listen to what the client is saying and needs.

DOING THE RIGHT THING

Act with integrity.

Think like an owner to create long-term shareholder value.

Value and reward honesty, character and diversity.

Foster a collegial work environment where all employees feel a sense of belonging.

LEADING WITH EXCEPTIONAL IDEAS

Win by breaking new ground.

Leverage different perspectives to gain new insight.

Drive innovation.

Be vigilant about what we can do better.

GIVING BACK

Serve our communities generously with our expertise, time and money.

Build a better Firm for the future through mentoring others.

Thank you for your confidence and investment in Morgan Stanley. I am optimistic about our future and confident in our ability to deliver lasting value to our shareholders.

James P. Gorman

JAMES P. GORMAN
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
APRIL 5, 2019

END NOTES

INFORMATION PROVIDED WITHIN THIS LETTER MAY INCLUDE CERTAIN NON-GAAP FINANCIAL MEASURES. THE DEFINITION OF SUCH FINANCIAL MEASURES AND/OR THE RECONCILIATION OF SUCH MEASURES TO THE COMPARABLE GAAP FIGURES IS INCLUDED IN EITHER THE 2018 FORM 10-K OR HEREIN.

1 NON-GAAP FINANCIAL MEASURE; PRE-TAX PROFIT REPRESENTS INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES.

2 NET INCOME REPRESENTS NET INCOME APPLICABLE TO MORGAN STANLEY.

3 NON-GAAP FINANCIAL MEASURE; RETURN ON EQUITY REPRESENTS NET INCOME APPLICABLE TO MORGAN STANLEY, EXCLUDING INTERMITTENT DISCRETE TAX ITEMS, LESS PREFERRED DIVIDENDS AS A PERCENTAGE OF AVERAGE COMMON EQUITY (SEE PAGE 30 OF 2018 FORM 10-K).

4 RELATIVELY STABLE REVENUE SOURCES REPRESENT REVENUES ASSOCIATED WITH FEE-BASED PRICING ARRANGEMENTS, FINANCING AND LENDING THAT ARE GENERALLY LESS SUSCEPTIBLE TO SIGNIFICANT FLUCTUATION AS A RESULT OF MARKET VOLATILITY WHEN COMPARED TO OTHER FIRM REVENUES, AND ARE COMPRISED OF: ASSET MANAGEMENT REVENUES IN THE WEALTH AND INVESTMENT MANAGEMENT SEGMENTS; REVENUES FROM FINANCING AND SECURED LENDING ACTIVITIES IN THE INSTITUTIONAL SECURITIES AND WEALTH MANAGEMENT SEGMENTS; AND REVENUES FROM INVESTMENT BANKING ADVISORY SERVICES.

5 EQUITY SALES & TRADING REVENUE WALLET SHARE IS BASED ON THE REPORTED 2018 NET REVENUES FOR THE EQUITY SALES AND TRADING BUSINESSES OF MORGAN STANLEY AND THE FOLLOWING GLOBAL PEER COMPANIES: GOLDMAN SACHS, JP MORGAN CHASE, BANK OF AMERICA, CITIGROUP, BARCLAYS, UBS GROUP, DEUTSCHE BANK, AND CREDIT SUISSE.

6 NON-GAAP FINANCIAL MEASURE; PRE-TAX MARGIN REPRESENTS INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AS A PERCENTAGE OF NET REVENUES.

7 SOURCE: THOMSON REUTERS AS OF JANUARY 17, 2019.

8 SOURCE: CERULLI ASSOCIATES AS OF MARCH 19, 2019.

9 INCLUDES LONG-TERM INVESTMENT MANAGEMENT FUNDS DOMICILED IN THE U.S., U.K., LUXEMBOURG AND JAPAN AS OF DECEMBER 31, 2018 THAT HAVE A RATING BASED ON THE OLDEST SHARE CLASS FOR EACH FUND.

10 U.S. BANK SUBSIDIARIES REPRESENT MORGAN STANLEY BANK, N.A. AND MORGAN STANLEY PRIVATE BANK, NATIONAL ASSOCIATION.

11 NON-GAAP FINANCIAL MEASURE; OPERATING GROWTH RATE PERCENTAGE FOR ASSET MANAGEMENT REVENUES EXCLUDES THE $78 MILLION REVENUE IMPACT IN 2018 OF THE GROSS UPS WHICH RESULTED FROM THE ADOPTION OF THE ACCOUNTING UPDATE, REVENUE FROM CONTRACTS WITH CUSTOMERS ("REVENUE RECOGNITION") (SEE PAGE 43 OF 2018 FORM 10-K).

12 EXPENSE EFFICIENCY RATIO REPRESENTS TOTAL NON-INTEREST EXPENSES AS A PERCENTAGE OF NET REVENUES.