

# ETF Revenue-Sharing, Expense Payments and Data Analytics Fees

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The following information pertains to exchange-traded fund (“ETF”) revenue-sharing, expense payments and fees for data analytics.

## Revenue-Sharing Fees

Please note, ETFs may be actively-managed or passively-managed. In general, actively-managed ETFs seek to outperform a market index or target return whereas passively-managed ETFs seek to track the performance of a market index.

Morgan Stanley charges a support fee, also called a revenue-sharing payment, to sponsors of actively-managed ETFs that our Financial Advisors/Private Wealth Advisors can recommend for purchase (“In-Scope ETFs”). We do not charge support fees on any other ETFs available for sale at our Firm. The support fee is generally applied to client account holdings of In-Scope ETFs based on a tiered rate that increases along with the management fee of the ETF. This means that sponsors pay lower rates on In-Scope ETFs with lower management fees than on those with higher management fees. The rate ranges up to a maximum of 0.12% per year (i.e., \$12 per \$10,000 of assets).

The tiered rates are the same for commission-based brokerage and fee-based advisory client account holdings. However, for advisory accounts there are account type and program exceptions and the fees are rebated to clients. Please see the

applicable Morgan Stanley ADV brochure for additional information.

Revenue-sharing payments are generally paid out of sponsor or other affiliate revenues or profits and not from ETF assets. However, sponsor or affiliate revenues or profits may, in part, be derived from fees earned for services provided to and paid for by ETFs. Morgan Stanley does not receive any portion of these revenue-sharing payments through brokerage commissions generated by an ETF.

Although we seek to charge the same revenue-sharing fee rate schedule for In-Scope ETFs, we have an incentive to promote and recommend the In-Scope ETFs whose sponsors make these payments over other ETFs whose sponsors do not, such as passively-managed ETFs and actively-managed ETFs that are only available on an unsolicited basis. In addition, since our revenue-sharing rates are higher for In-Scope ETFs with higher management fees, this fact presents a conflict of interest for us to promote and recommend In-Scope ETFs with higher management fees over those with lower management fees. In order to mitigate these conflicts, Financial Advisors/Private Wealth Advisors and their Branch Managers do not receive additional

compensation as a result of revenue-sharing payments received by Morgan Stanley. Moreover, for advisory account clients the revenue-sharing payments we receive are rebated back to clients.

## Expense Payments and Data Analytics Fees

Morgan Stanley provides sponsors of all ETFs sold through Morgan Stanley with opportunities to sponsor meetings and conferences, and grants them access to our Branch Offices and Financial Advisors/Private Wealth Advisors for educational, marketing and other promotional efforts. Representatives for such ETFs may also work closely with our Branch Offices and Financial Advisors/Private Wealth Advisors to develop business strategies and support promotional events for clients and prospective clients, and educational activities. Some ETF sponsors or their affiliates reimburse Morgan Stanley for certain expenses incurred in connection with these promotional efforts, client seminars and training programs. ETF sponsors independently decide if and what they will spend on these activities, with some ETF sponsors agreeing to make annual dollar amount expense reimbursement commitments

of up to \$740,000, although actual reimbursements may be higher. Some sponsors of ETFs also invite members of your Morgan Stanley team to attend events. Expense payments may include meeting or conference facility rental fees and hotel, meal and travel charges.

Morgan Stanley also provides all ETF sponsors with the opportunity to purchase data analytics regarding ETF sales. For ETF sponsors electing to purchase such data, the fee depends on the level of data and ranges up to \$700,000 per year. We also offer sponsors of passively-managed ETFs a separate transactional data fee ranging up to \$550,000 per year for those sponsors with more than one hundred passively-managed ETFs on our platform. For an additional fee, all ETF sponsors may purchase supplemental data analytics regarding financial product sales at Morgan Stanley.

These facts present a conflict of interest for Morgan Stanley and our Financial Advisors/Private Wealth Advisors to the extent they lead us to focus on ETFs from those sponsors that commit significant financial and staffing resources to promotional and educational activities and/or purchase data analytics instead of ETFs from sponsors that do not. In order to mitigate this conflict, Financial Advisors/Private Wealth Advisors and their Branch Office Managers do not receive additional compensation for recommending ETFs from sponsors that purchase data analytics.

ETF representatives are allowed to provide funding for client/prospect seminars, employee education and training events, an occasional meal and entertainment and gifts. Morgan Stanley's non-cash compensation policies set conditions

for these types of payments, and do not permit any funding conditioned on achieving any sales target or awarded on the basis of a sales contest.

### **Other Compensation Received from ETFs**

Morgan Stanley or its affiliates receive, from certain ETFs, compensation in the form of commissions and other fees for providing traditional brokerage services, including related research and advisory support, and for purchases and sales of securities for ETF portfolios. We also receive other compensation from certain ETFs for financial services performed for the benefit of such ETFs. Morgan Stanley prohibits linking the determination of the amount of brokerage commissions and service fees charged to an ETF to the aggregate values of our overall ETF-share sales, client holdings of the ETF or to offset the revenue-sharing, expense reimbursement and data analytics fees described above. Financial Advisors/Private Wealth Advisors and their Branch Office Managers receive no additional compensation as a result of these payments received by Morgan Stanley.

Clients with brokerage accounts will generally pay commissions to Morgan Stanley on the purchase and sale of ETF shares. For more information on equity commission pricing, please speak with your Financial Advisor/Private Wealth Advisor. Clients with advisory accounts do not pay such commissions, but the advisory account fee will be applied to the ETF asset value.

### **Availability of Affiliated ETFs**

Certain of our affiliates, which include Morgan Stanley Investment Management, Eaton Vance, Boston Management

and Research, Calvert Research and Management, Atlanta Capital Management Company and Parametric Portfolio Associates, serve as the investment adviser to certain ETFs that we may offer. These affiliated entities will receive investment management fees and other fees from any affiliated ETFs. Therefore, Morgan Stanley has a conflict of interest to recommend affiliated ETFs. In order to mitigate this conflict, Financial Advisors/Private Wealth Advisors and their Branch Managers do not receive additional compensation for recommending affiliated ETFs. Affiliated ETF sponsors are subject to the same economic arrangements with Morgan Stanley as described herein.

### **Note on Dividend and Capital Gains Distributions**

*Domestic* ETFs are usually required to distribute dividends and net realized capital gains on their holdings to shareholders. Although ETFs generally experience fewer net realized capital gains than other investment products, such gains can and do occur. Unless an ETF is held in a tax-advantaged account, shareholders will typically have to pay taxes on such income. This is true even if the ETF loses value during a given tax year. Reinvesting these distributions in your ETF does not prevent you from having to pay taxes on the distributions.

### **For More Information**

For additional information on a particular ETF's payment and compensation practices, please refer to the ETF's Prospectus and Statement of Additional Information. You may also contact your Financial Advisor/Private Wealth Advisor.

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