

# Morgan Stanley U.S. Financials Conference

James P. Gorman, *President and Chief Executive Officer*

February 2, 2010

# Notice

The information provided herein may include certain non-GAAP financial measures. The reconciliation of such measures to the comparable GAAP figures are included in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2008, the Company's 2009 Quarterly Reports on Form 10-Q and the Company's Current Reports on Form 8-K, including any amendments thereto, which are available on [www.morganstanley.com](http://www.morganstanley.com).

This presentation may contain forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made, which reflect management's current estimates, projections, expectations or beliefs and which are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of risks and uncertainties that may affect the future results of the Company, please see the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2008, the Company's 2009 Quarterly Reports on Form 10-Q and the Company's Current Reports on Form 8-K.

# Executive Summary



**2008**

- Conversion into Financial Holding Company and De-lever

**2009**

- Strategic Repositioning and Reshaping of the Balance Sheet

**2010**

- Disciplined Execution to Drive Profitability

# 2008 – Year of Survival

## Actions Taken<sup>(1)</sup>

52W High-Low<sup>(2)</sup>  
(\$51.70–\$9.20)

### Financial Holding Company



### Balance Sheet Reduction

– \$1.2Tn (2Q07) → \$659Bn (4Q08)



### Liquidity Increase

– \$64Bn (1Q07) → \$121Bn (4Q08)<sup>(3)</sup>



### Leverage Reduction

– 33x (4Q07) → 11x (4Q08)<sup>(4)</sup>



### Capital Raised

– \$5.6Bn CIC<sup>(5)</sup>, \$9Bn MUFG



Source: Morgan Stanley SEC filings

(1) Fiscal year ended November 30

(2) Calendar year 52-week high and low closing prices (source: Bloomberg)

(3) Quarterly average total liquidity reserve

(4) Leverage ratio equals period-end total assets divided by tangible shareholders' equity

(5) CIC investment occurred in December 2007

# 2009 – Year of Transition

Actions Taken	52W High-Low <sup>(1)</sup> (\$35.74–\$13.10)
<b>Created Morgan Stanley Smith Barney (MSSB) Joint Venture</b>	✓
<b>Announced Sale of Retail Asset Management</b>	✓
<b>Sold Remaining MSCI Stake</b>	✓
<b>Entered MOU for MUFG Japan Joint Venture</b>	✓
<b>Repurchased TARP and Associated Warrant</b>	✓
<b>Launched Global Hiring Plan</b>	✓
<b>Maintained Low Leverage</b> – Under 16x <sup>(2)</sup>	✓
<b>Capital Raised</b> – \$6.9Bn equity, \$13Bn non-guaranteed senior unsecured debt	✓

Source: Morgan Stanley SEC filings

(1) Calendar year 52-week high and low closing prices (source: Bloomberg)

(2) Leverage ratio equals period-end total assets divided by tangible shareholders' equity. Calendar year 2009 quarter ends

# 2009 – Disappointing Numbers

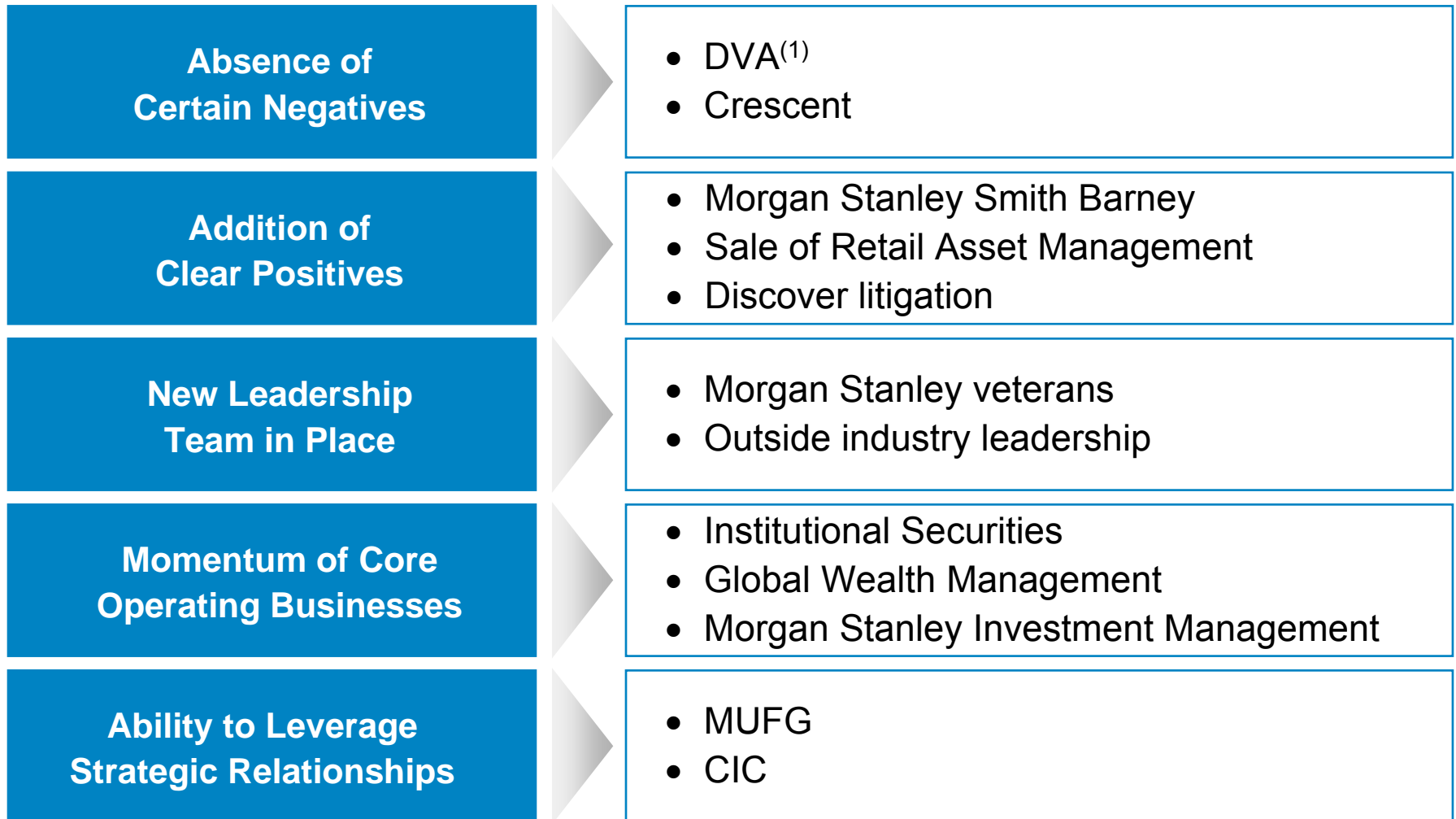
Metrics	2009
Net Revenues	\$23.4Bn
Net Income to Morgan Stanley <sup>(1)</sup>	\$1.1Bn
Earnings to Common Shareholders	(\$0.9Bn)
Return on Average Common Equity	N/M
EPS <sup>(2)</sup>	(\$0.93)
Compensation / Net Revenues	62%

Source: Morgan Stanley SEC filings

(1) Represents consolidated income / (loss) from continuing operations applicable to Morgan Stanley before gain / (loss) from discontinued operations

(2) EPS represents earnings per diluted share from continuing operations

# 2010 – A Very Different Starting Place



(1) Debt valuation adjustment is a mark-to-market concept that can vary in either direction; however, current credit spreads would not indicate extreme volatility

# 2010 – New Leadership Team in Place

## New Management Team Averaging Approximately 25 Years of Industry Experience

- Compelling combination of Morgan Stanley veterans who successfully led the firm through the crisis
- New talent through several recent additions

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**Jack DiMaio**

*Global Head of IRCC*

**Luc Francois**

*Global Co-Head of Equities*

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**Alex Ehrlich**

*Global Head of Prime Brokerage*

**Charlie Johnston**

*President of MSSB*

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**Gregory Fleming**

*President MSIM / Research*

**John Klopp**

*Head of Americas Real Estate /  
Real Estate Debt*

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# 2010 – Momentum across Operating Business

- Institutional Securities: maintain Investment Banking lead, while closing selective Sales & Trading gaps
- Integrate Morgan Stanley Smith Barney Joint Venture
- Optimize Asset Management
- Maintain prudent capital and risk management practices
- Redesigned compensation structure

# ISG – Building on Competitive Strengths: Capabilities

## Investment Banking and Capital Markets

### Leading positions in:

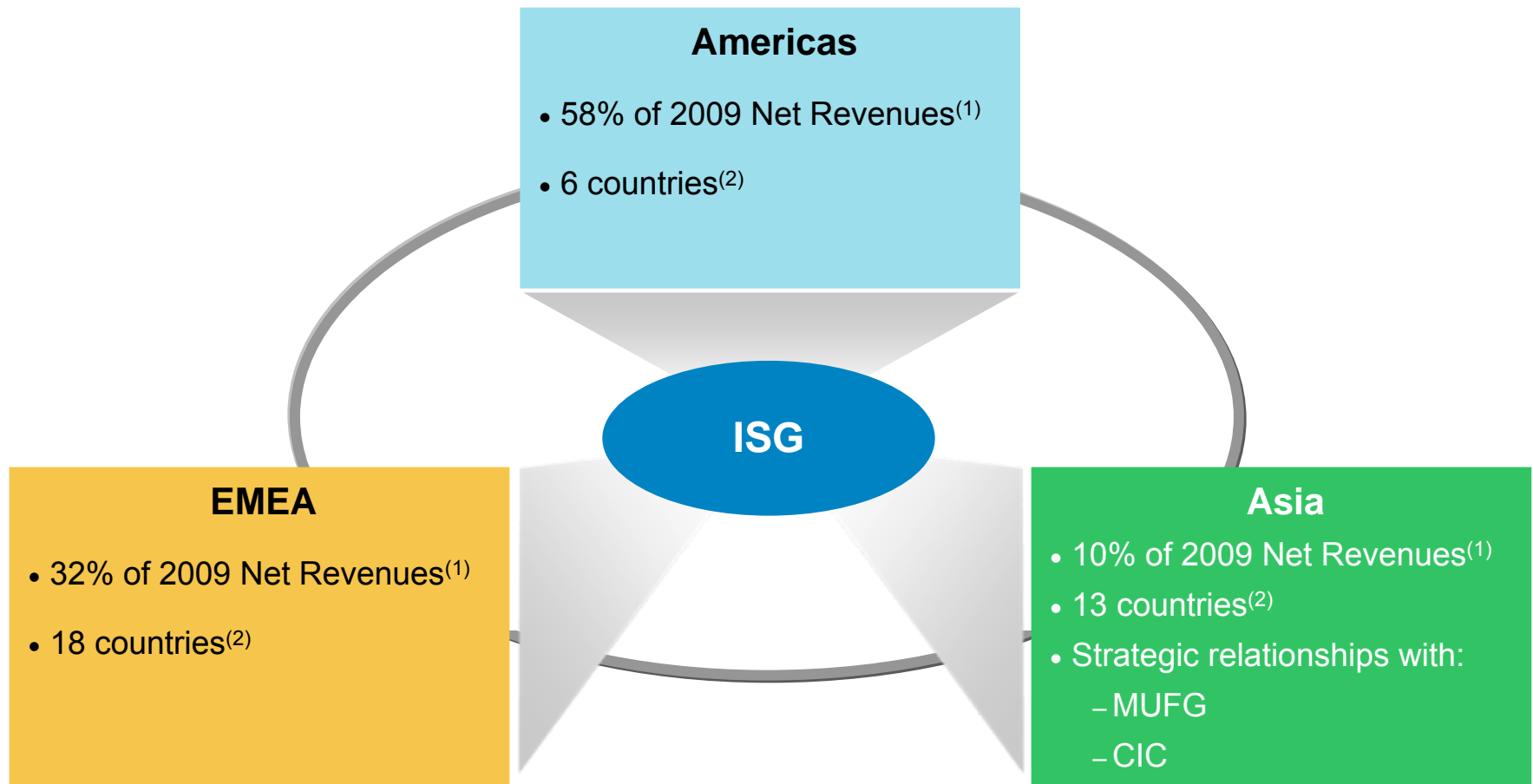
- Advisory
- IPOs
- Equity and Equity-linked
- Corporate Debt

## Sales & Trading

### Strong positions in:

- Commodities
- Prime Brokerage
- Equity Cash
- Corporate Debt and Credit Derivatives

# ISG – Building on Competitive Strengths: Geographic Reach



(1) 2009 net revenues excluding DVA

(2) Includes countries with active employees and contingents as of 12/31/2009

# ISG – Key Direction

## What our Clients say

- “We like to do business with Morgan Stanley”
- “We need to see more of them”

## Competitive Landscape

- We have positioned our firm as more client-oriented
  - Expanding footprint
  - Driving more flow products, and less structured products
  - Building better content and ideas
  - Delivering entire firm more consistently to clients
- Leverage a world class originator (Institutional Securities) with a world class distributor (Morgan Stanley Smith Barney)

# ISG – 2010 Key Execution Priorities

## Sales & Trading

### Market Share Gain Opportunities:

- Rates
- Foreign exchange
- Equity derivatives
- Emerging markets

## Investment Banking and Capital Markets

### Market Share Gain Opportunities:

- Leveraged Finance
- Cross Border Advisory

# GWM / MSSB – Building on Competitive Strengths

**#1 in:**

- Financial Advisors: 18,135
- Client Assets: \$1.6Tn
- Revenues: \$3.1Bn<sup>(1)</sup>
- Top Ranked Financial Advisors (Barron's)<sup>(2)</sup>

**Source:** 4Q09 Earnings Release (all figures as of December 31, 2009), Barron's Top 100 Financial Advisors

(1) 4Q09 revenues

(2) In 2009, Morgan Stanley Smith Barney had 31 out of 100 of Barron's Top 100 Financial Advisors, including the top ranked Financial Advisor

# GWM / MSSB – Metrics that Matter

Metric	2009	2010	2011 (Target)
Run-rate Cost Synergies <sup>(1)</sup>	\$445MM	\$800MM	\$1.1Bn
One-time Costs <sup>(1)</sup>	\$280MM	\$730MM	\$1.1Bn
Number of FAs	18,135	17,500– 18,500	~18,000
PBT Margin	8% <sup>(2)</sup>	15%	>20%
Net New Money	(\$13Bn) <sup>(2)</sup>	>\$20Bn	\$50Bn
Net FA Attrition to Competition, Top 2 Quintiles	<2% <sup>(2)</sup>	<5%	<5%

Source: Morgan Stanley SEC filings and Company presentations

(1) Cumulative cost synergies and one-time costs

(2) 2H09

# GWM / MSSB – Key Execution Milestones: 2010–2011

Execution Item	Status
Integrated FA Compensation	✓
Integrated Equity Pricing	✓
MS Employee Status	✓
Equity and Preferred Cross-Offer	✓
Integrated Pricing Phase II	Q2 2010
Self-Clearing Phase I	Q3 2010
New FA Workstations “3D” Releases	Q2 2010–Q1 2011
Legacy Smith Barney FA Systems Conversion	Q2–Q3 2011



# MSIM – Key 2010 Execution Milestones (7-Step Plan)

Action Item	Status
1 Combined AIP and Graystone	✓
2 Announced sale of Retail Asset Management	✓
3 Signed strategic outsourcing partnership with State Street	✓
4 Rebuild investment culture in long-only business	In Progress
5 Restructure and renew Real Estate business	In Progress
6 Expand Fund of Funds business into new assets (Private Equity Fund of Fund, Real Estate Fund of Fund)	In Progress
7 Evaluating hedge fund business	In Progress

# 2010 – Prudent Capital and Risk Management

## Capital

- Industry appropriate capital ratios
  - Tier 1 Capital: 15.4%<sup>(1)</sup>
  - Tier 1 Common: 8.2%<sup>(1)</sup>

## Funding

- Diversified and stabilized funding sources
  - Deposits of \$62Bn (\$112Bn in MSSB)<sup>(2)</sup>
  - Issued non-guaranteed long-term debt

## Risk

- Disciplined risk taking
  - Focus on client flows
  - Focus on no outsized risk positions

Source: 4Q09 Earnings Release

(1) Under Basel I, as of 4Q09

(2) As of 4Q09

# 2010 – Compensation Structure by Business

## Business Structure

- MSSB – Largely formulaic / commission-based
- ISG – Largely discretionary
- Support Groups – Largely salary, some discretionary
- MSIM – Mix of formulaic and discretionary

## Delivery Vehicles

- Salary
- Bonus
- Restricted Stock
- Performance Units
- Deferred Cash and Clawbacks

## 2010 to 2012 Compensation Ratio Trends

- **MSSB will trend lower**  
– (Scale & non-compensable revenues)
- **ISG will trend lower**  
– (Scale & DVA)
- **MSIM will trend lower**  
– (Marks)

# 2010 – Global Strategic Relationships

**Our strategic relationships with MUFG and CIC offer unique opportunities for collaboration both in their home markets, as well as around the world**

## **Mitsubishi UFJ Financial Group, Inc. (MUFG)**

- Strategic partnership with one of world's leading financial groups with \$2.3Tn in assets and \$1.4Tn in deposits<sup>(1)</sup>

## **China Investment Corporation (CIC)**

- Strategic Relationship with one of the largest global sovereign wealth funds

## **Recent Collaborations Include**

- Morgan Stanley / MUFG Lending and Marketing JV has made 24 lending transactions since March
- Morgan Stanley / MUFG has closed 20 referral transactions
- Entered MOU with MUFG to form Japan Joint Venture
- CIC is an important investor in both Morgan Stanley and its investment management products

# Summary – Business Profile 2010

## Institutional Securities

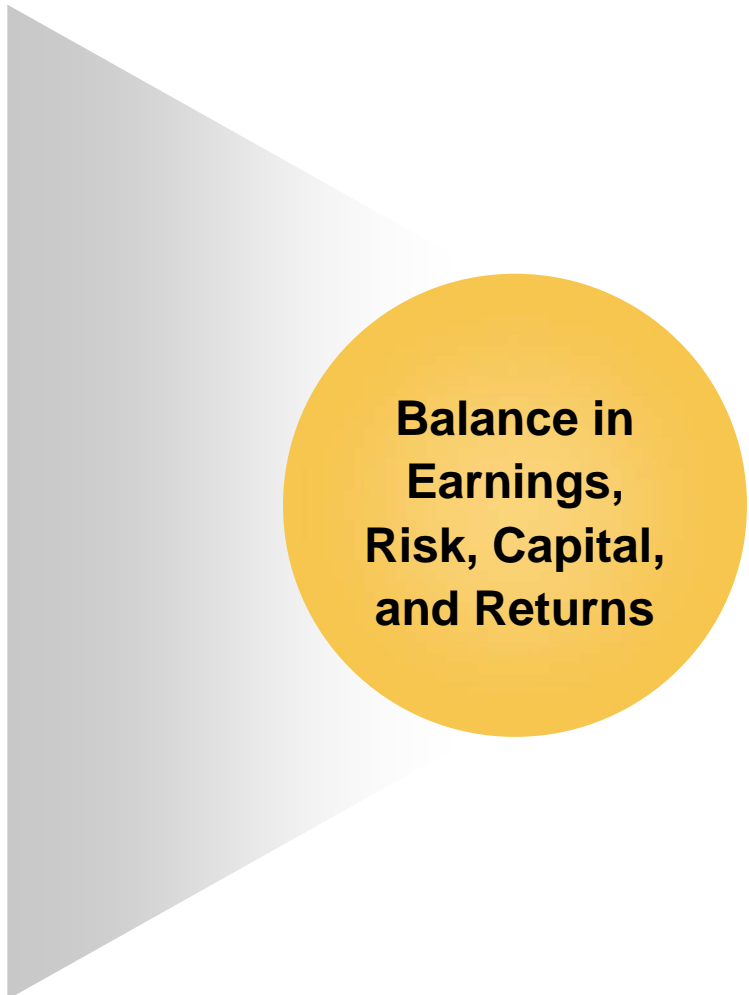
- Balance Sheet: high
- Capital: high
- Risk: moderate to high
- Pre-tax Margin: high
- Potential Earnings: high

## Global Wealth Management

- Balance Sheet: low
- Capital: low
- Risk: low
- Pre-tax Margin: moderate
- Potential Earnings: moderate

## MSIM

- Balance Sheet: low
- Capital: moderate
- Risk: low to moderate
- Pre-tax Margin: moderate
- Potential Earnings: low to moderate



**Balance in  
Earnings,  
Risk, Capital,  
and Returns**

# Summary – 2010

- Business well-positioned for 2010
  - Business Mix
  - Capital, Funding, and Risk Profile
  - Client Position
  - Competitive Position
- Leadership in place
- All about disciplined execution in 2010

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