

Morgan Stanley

## Morgan Stanley U.S. Financials Conference

James P. Gorman, President and Chief Executive Officer

February 1, 2011

# 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 year ended December 31, 2009 ("Annual Report on Form 10-K"), the Company's 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, the Company's Quarterly Reports on Form 10-Q and the Company's Current Reports on Form 8-K. This presentation is not an offer to buy or sell any security.

Morgan Stanley

This slide is part of a presentation by Morgan Stanley and is intended to be viewed as part of that presentation. The presentation is based on information generally available to the public and does not contain any material, non-public information. The presentation has not been updated since it was originally presented.

# Management Business Objectives

## Four Pronged Approach to Generating Attractive Shareholder Returns

1

- Focusing on building balance sheet “lite” businesses

2

- Reallocating capital across businesses, specifically:
  - Reducing capital allocated to Merchant Banking
  - Phasing out remaining proprietary trading (e.g., PDT)
  - Allocating less balance sheet to capital intensive businesses

3

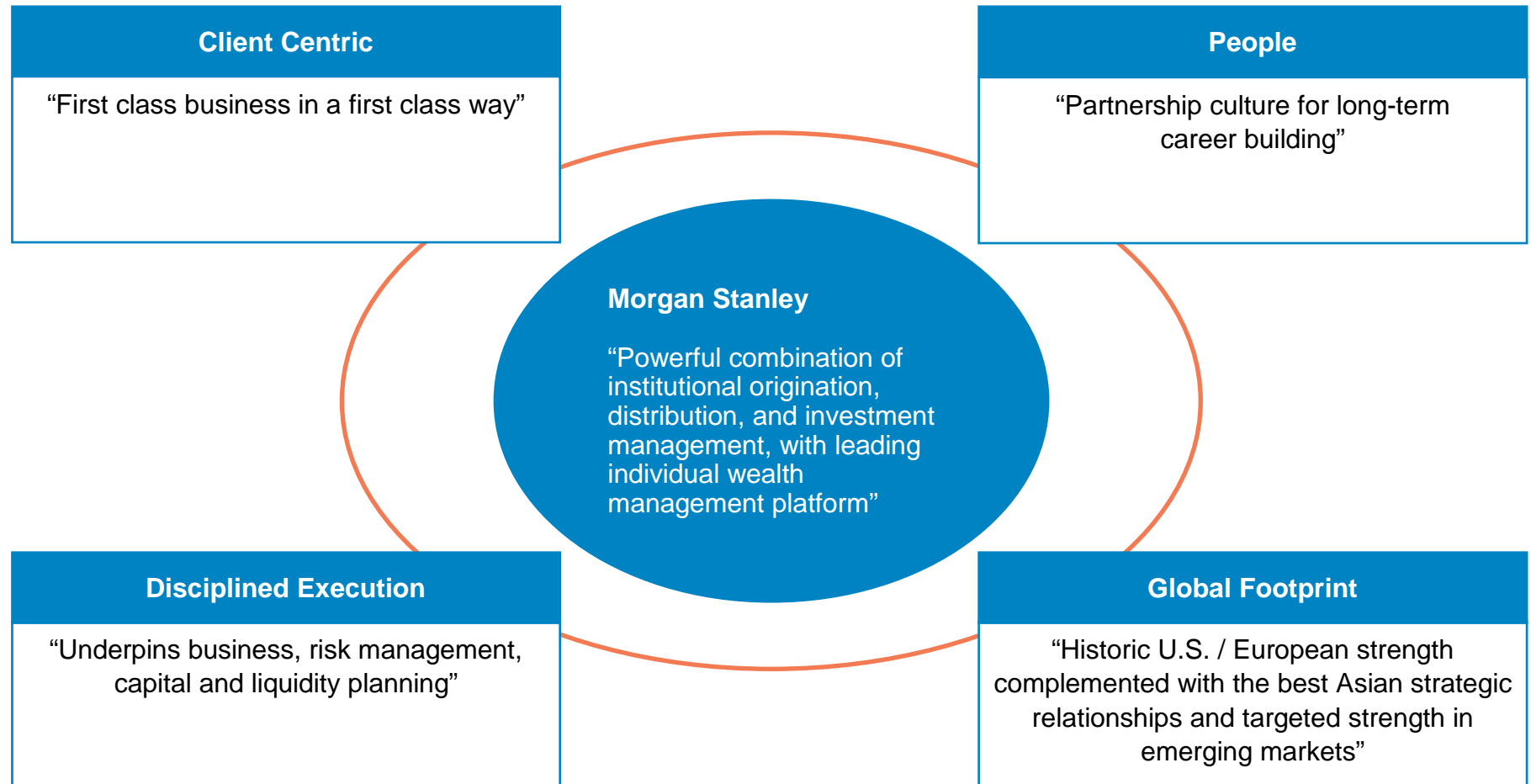
- Generating higher ROA from remaining balance sheet intensive businesses

4

- Operating business units and support functions with full earnings accountability

# Advisor and Counterparty of Choice For Our Clients

## Key Strategic Themes



Morgan Stanley

This slide is part of a presentation by Morgan Stanley and is intended to be viewed as part of that presentation. The presentation is based on information generally available to the public and does not contain any material, non-public information. The presentation has not been updated since it was originally presented.

# Strategically Repositioned

Actions Taken	
Spun-Off Discover Financial Services (3Q 2007)	✓
Strategic Investment from CIC (4Q 2007)	✓
Sold MSCI (4Q 2007 – 2Q 2009)	✓
Strengthened risk management and increased headcount (2008 – 2009)	✓
MUFG Investment and Strategic Alliance (4Q 2008)	✓
Created Morgan Stanley Smith Barney (MSSB) (2Q 2009)	✓
Reconstituted Operating, Management and Risk Committees (2010)	✓
Merged Japan Business with MUFG Securities (2Q 2010)	✓
Sold Retail Asset Management (2Q 2010)	✓
CIC conversion of Preferred to Common (3Q 2010)	✓
Restructured all proprietary desks (including PDT)	✓
Addressed merchant banking portfolio, including real estate, limited future capital (2010)	✓
Sold Invesco equity stake (4Q 2010)	✓
Sale of CICC (4Q 2010)	✓
Signed Morgan Stanley – Huaxin JV agreement (4Q 2010)	✓
Reducing hedge fund investments, including return of seed capital (including FrontPoint)	Ongoing
Avoiding new concentrated, illiquid positions or outsized exposures	Ongoing

Morgan Stanley

This slide is part of a presentation by Morgan Stanley and is intended to be viewed as part of that presentation. The presentation is based on information generally available to the public and does not contain any material, non-public information. The presentation has not been updated since it was originally presented.

# Balance Sheet De-Risked

Strategic Repositioning

+

Disciplined Execution

+

Balance Sheet De-Risking

Shareholder Returns

	3Q 2007 <sup>(1)</sup>	4Q 2010
Tier 1 Capital Ratio Strong	11.2% <sup>(2)</sup>	16.0% <sup>(3)</sup>
Tier 1 Common Ratio Strong <sup>(5)</sup>	7.7% <sup>(4)</sup>	10.5% <sup>(3)</sup>
Leverage Reduction	32.3x	14.7x
Balance Sheet Reduction	\$1.2Tn	\$808Bn
Liquidity as a % of Balance Sheet Increased	10.5%	21.2%

**Source:**

Morgan Stanley SEC Filings and 4Q10 earnings release

(1) Fiscal Quarter Ended August 31, 2007.

(2) Estimated Tier 1 Capital Ratio under Basel II (SEC guidelines).

(3) Preliminary estimates under Basel I (Federal Reserve guidelines) are subject to revision in Morgan Stanley's Annual Report on Form 10-K for 2010.

(4) Estimated for November 2007; Tier 1 Common Ratio introduced in April 2009.

(5) Tier 1 common ratio is a non-GAAP financial measure that the Firm considers to be a useful measure that the Firm and investors use to assess operating performance and capital adequacy. The Tier 1 common ratio equals Tier 1 capital less qualifying perpetual preferred stock, qualifying trust preferred securities and qualifying restricted core capital elements, adjusted for the portion of goodwill and non-servicing intangible assets associated with MSSB non-controlling interests divided by risk-weighted assets.

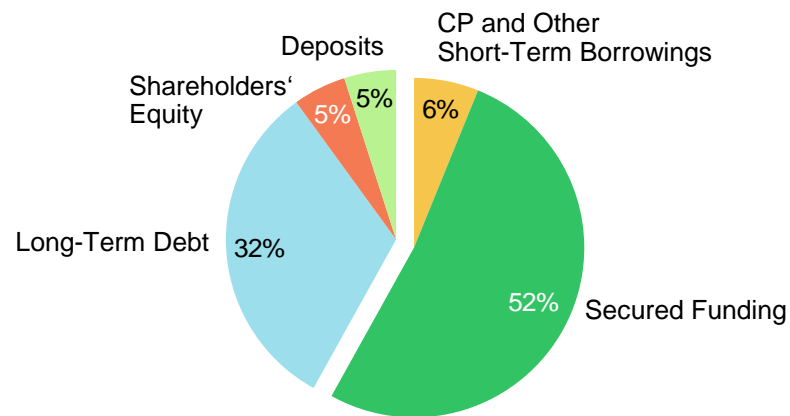
Morgan Stanley

This slide is part of a presentation by Morgan Stanley and is intended to be viewed as part of that presentation. The presentation is based on information generally available to the public and does not contain any material, non-public information. The presentation has not been updated since it was originally presented.

# More Stable and Diverse Funding

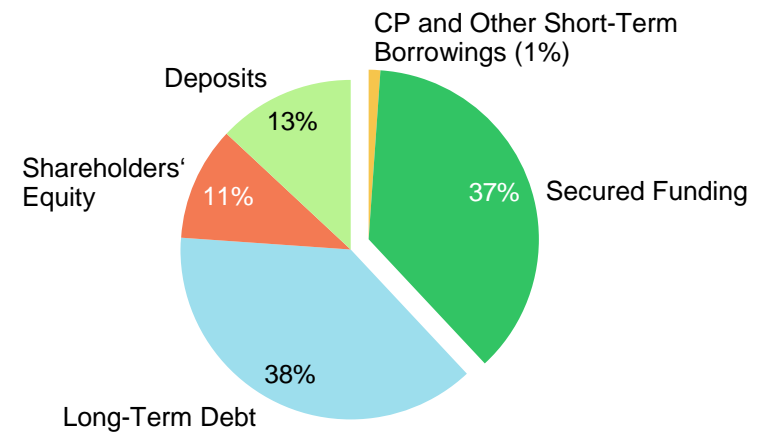
## Composition of Funding Liabilities and Equity

4Q 2007 <sup>(1)</sup>



**Total = \$589Bn**

4Q 2010 <sup>(2)</sup>



**Total = \$504Bn**

**Source:**

Morgan Stanley SEC Filings; 4Q10 are preliminary estimates and are subject to revision in Morgan Stanley's Annual Report on Form 10-K for 2010

- (1) 4Q07 numbers as reported on a fiscal-year basis.
- (2) 4Q10 numbers are estimates on a calendar-year basis.

# Delivering On Our Strategy

## Institutional Securities

“Leading position in Investment Banking, Equities, Commodities, and Credit Products with upside in Rates and FX from more broadly leveraging our client franchise”

## Wealth Management

“World’s largest wealth management firm, with upside from integration and expanded client offering”

## Asset Management

“Institutional asset management focus, with upside from ongoing optimization”

## Key Performance Goals

### Strengthen Institutional Securities

- Maintain leadership position in Investment Banking, Equities, Commodities, and Credit Products
- Deepen client coverage to close footprint gaps
  - Drive 2% market share increase in Fixed Income

### Integrate and build MSSB

- One MSSB platform with industry-leading capabilities
- Build MS Private Bank
- 20% PBT margin post-integration (market / rate dependent)

### Rebuild Asset Management

- 70% of strategies at or above benchmark
- Leverage strong performance with robust distribution / sales



# Institutional Securities

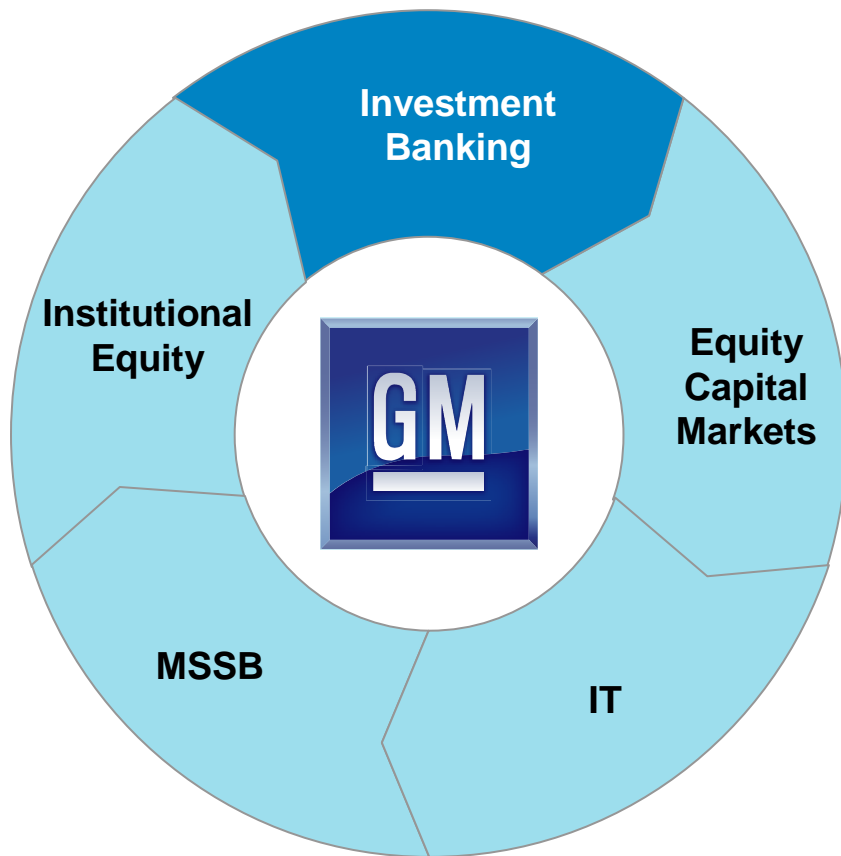
Morgan Stanley

This slide is part of a presentation by Morgan Stanley and is intended to be viewed as part of that presentation. The presentation is based on information generally available to the public and does not contain any material, non-public information. The presentation has not been updated since it was originally presented.

# Delivering the Entire Firm to Clients

## Select 2010 Franchise Deals

### General Motors \$23Bn IPO – Largest IPO Ever (1)



<b>Largest IPO Ever</b>  Lead Left Bookrunner and Stabilization Agent	<b>Largest IPO in Asia Ever</b>  Joint Global Coordinator	<b>Largest Equity Deal Ever</b>  Stabilization Agent
<b>Largest IPO in India Ever</b>  Joint Bookrunner	<b>Second Largest Non-Bank U.S. Follow-on Ever</b>  Joint Active Bookrunner	<b>Sole Placement Agent</b>  Sole Placement Agent and Underwriter
<b>Largest Block Trade in History</b>  Bookrunner	<b>Creates the World's Largest Airline</b>  Merger of Continental Airlines and UAL Corp.	<b>Continued Role as Trusted Advisor to Federal Reserve</b>  Sale of American Life Insurance to MetLife
<b>Demonstrates Global / Cross-Border Capabilities</b>  International Power's acquisition of assets out of GDF Suez Energy	<b>Debt IPO</b>  Joint Active Bookrunner	<b>Large Cross-Border Commitment</b>  Joint Bookrunner

Morgan Stanley

(1) Size is post-green shoe, includes common stock and mandatory convertible junior preferred stock and is inclusive of over-allotment options.

This slide is part of a presentation by Morgan Stanley and is intended to be viewed as part of that presentation. The presentation is based on information generally available to the public and does not contain any material, non-public information. The presentation has not been updated since it was originally presented.

# Investment Banking – Growth Drivers

## Revenue Drivers

	Goal	Outlook / Assumptions
<b>M&amp;A</b>	<ul style="list-style-type: none"> <li>Maintain Leadership Position</li> </ul>	<ul style="list-style-type: none"> <li>M&amp;A market expected to rebound steadily in 2011 tracking historical volume and revenue trends</li> <li>Conditions ripe for enhanced activity: high corporate cash balances, rebounding but attractive valuations and improved corporate confidence</li> <li>Expect further increases in financial sponsor activity and cross-border / emerging market M&amp;A</li> </ul>
<b>ECM</b>	<ul style="list-style-type: none"> <li>Maintain Leadership Position</li> </ul>	<ul style="list-style-type: none"> <li>Equity market activity expected to increase in 2011 driven by growth in Asia and Europe, improved market valuations, increased M&amp;A / event volume and financial sponsor monetizations</li> <li>Expect a strong pipeline in emerging markets</li> </ul>
<b>DCM</b>	<ul style="list-style-type: none"> <li>Maintain Top 5 Rank in USD Investment Grade Debt</li> <li>Improve High Yield Market Share</li> </ul>	<ul style="list-style-type: none"> <li>Debt issuance is likely to remain robust due to the attractive rate environment, a healthy refinancing calendar of existing maturities in both investment grade and high yield, and an expected uptick in corporate M&amp;A as well as financial sponsor activity</li> </ul>

# Equities – Growth Drivers

---

## Revenue Drivers

	Goal	Actions
<b>Cash</b>	<ul style="list-style-type: none"><li>• Top 3 Rank</li></ul>	<ul style="list-style-type: none"><li>• Strategically focus on content, scale / access and liquidity</li><li>• Maintain market share growth through agency flow, research, effectively deploying capital and sourcing liquidity for our clients</li></ul>
<b>Prime Services</b>	<ul style="list-style-type: none"><li>• Top 3 Rank</li></ul>	<ul style="list-style-type: none"><li>• Maintain leadership in serving our core client base across AUM spectrum</li><li>• Continue expansion of footprint across geographies and service offerings</li></ul>
<b>Derivatives</b>	<ul style="list-style-type: none"><li>• Increase Share</li></ul>	<ul style="list-style-type: none"><li>• Continue to build out client footprint and diversify product set (e.g., asset managers, financial institutions, and corporate and retail clients; agency and OTC products)</li></ul>

---

# Fixed Income – Market Share Gains To Drive Growth

## Revenue Drivers

	Goal	Actions
<b>Commodities</b>	<ul style="list-style-type: none"> <li>• Maintain Top 2 Rank</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain leading client franchise</li> <li>• Continue to evolve distribution capabilities and profile of business</li> </ul>
<b>Credit</b>	<ul style="list-style-type: none"> <li>• Maintain Top 3 Rank</li> </ul>	<ul style="list-style-type: none"> <li>• Increase wallet share through Priority Accounts and SRM efforts</li> <li>• Leverage headcount investment in U.S. and EU</li> <li>• Expand CRE lending and securitization</li> <li>• Build out distribution capabilities</li> </ul>
<b>Rates</b>	<ul style="list-style-type: none"> <li>• Increase Share</li> </ul>	<ul style="list-style-type: none"> <li>• Leverage headcount investment to increase share in Flow products (e.g., swaps, government securities)</li> <li>• Cross selling / improved connectivity with capital markets</li> <li>• Build leadership position in centrally cleared derivatives</li> </ul>
<b>FX</b>	<ul style="list-style-type: none"> <li>• Increase Share</li> </ul>	<ul style="list-style-type: none"> <li>• Leverage FX headcount investment</li> <li>• Continue to grow electronic trading</li> <li>• Increase onshore presence</li> <li>• Expand capabilities and footprint (e.g., FX PB) through platform investments</li> </ul>

**Source:**

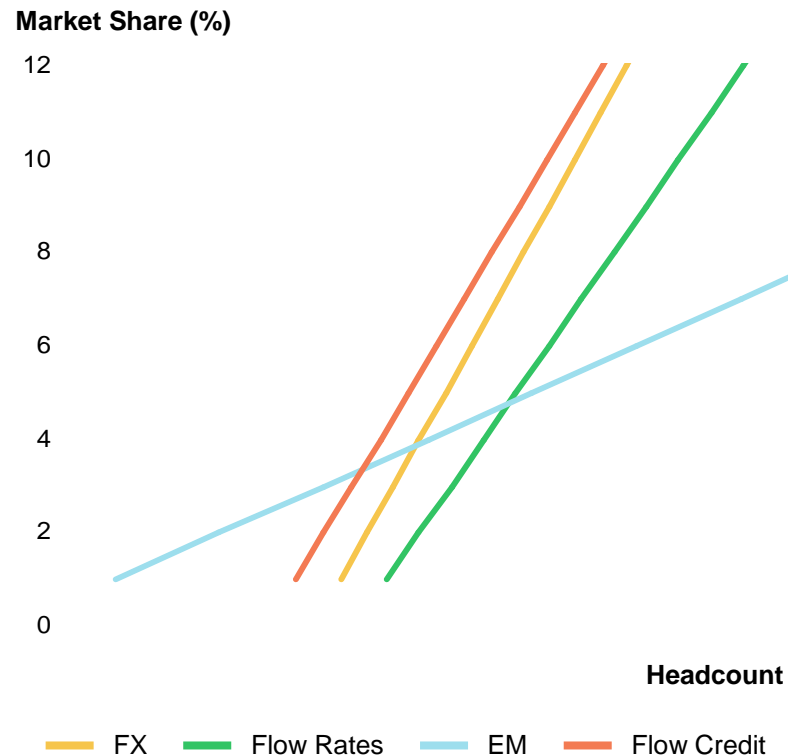
Oliver Wyman

(1) Rankings are based on 2009 Oliver Wyman Revenue Benchmarking Study.

# Fixed Income – Headcount In Place to Drive Share

## Regression Between Headcount and Market Share

2009 Market Share vs. 2009 Headcount Among the Top 10 Banks



Source: Oliver Wyman

- Positive correlation between headcount and market share in flow products
- Morgan Stanley made significant net hires in IRCC through 2010
  - FX: up ~40%
  - Rates: up ~20%
- Productivity of new hires typically peaks after multiple quarters

## Morgan Stanley

This slide is part of a presentation by Morgan Stanley and is intended to be viewed as part of that presentation. The presentation is based on information generally available to the public and does not contain any material, non-public information. The presentation has not been updated since it was originally presented.

# Fixed Income – Coverage Efforts Showing Progress

## Improving Client Dialogue and Penetration

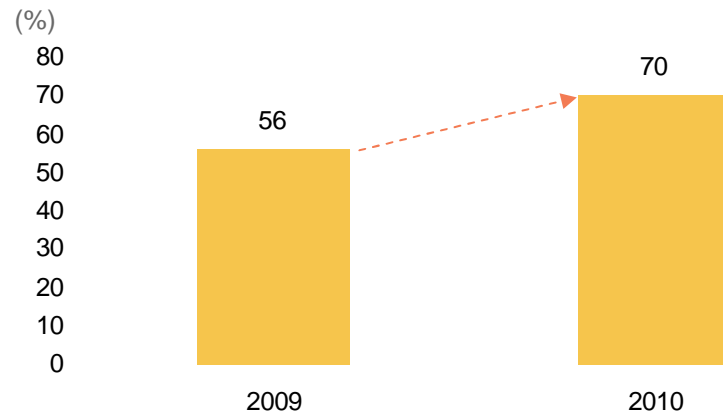
- Implemented SRM and Priority Account Initiative
  - Senior MDs covering priority accounts, including cross-divisional focus accounts
  - Launched in March 2010
  - Focus on C-level client relationships
  - Leveraging full strength of our franchise

## Coverage and Footprint Initiatives Showing Results

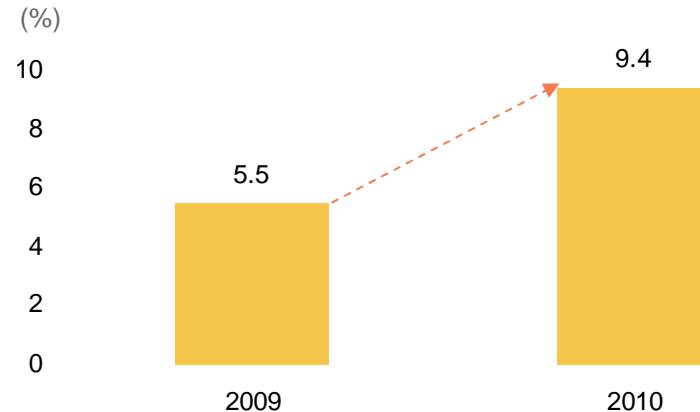
- Greenwich Associates identified Morgan Stanley as 2010 “Momentum” Firm in U.S. Fixed Income
  - Improved rank in both Breadth of Relationship and Client Dealer Rankings
- Orion data confirms progress in both North America and EMEA
  - Increased share in Account Penetration, Market Depth and Sales Top Tier Ranking

### U.S. Fixed Income Market Penetration – Total <sup>(1)</sup>

Clients Using Morgan Stanley as Dealer



### U.S. Fixed Income Estimated Market Share <sup>(1)</sup>



# Global Wealth Management

Morgan Stanley

This slide is part of a presentation by Morgan Stanley and is intended to be viewed as part of that presentation. The presentation is based on information generally available to the public and does not contain any material, non-public information. The presentation has not been updated since it was originally presented.



# GWM – Platform of Choice for High Performing FAs

## Objective

- **Complete integration**
- **Growth initiatives**
  - Expand retail banking capability
  - Capture cross-firm synergies
  - Deliver on “Investment Excellence” strategy
  - Invest selectively in international business
- **Improve margins**
  - Complete integration
  - Build banking and lending offering
  - Drive productivity gains
  - Lower compensation ratio through growth in non-compensable revenues
- **Maintain stable FA headcount**

## Key Performance Targets

**PBT Margin: 20%+**  
**FA Headcount: ~17,500 – 18,500**  
**<5% Attrition in Top 2 Quintiles**

# GWM – Revenue Growth Drivers

Revenue Category	FY2010 (\$mm)	% of Total		Outlook / Assumptions
Transaction Based <sup>(1)</sup>	4,809	38	↑	Market appreciation and normalization of volumes
Asset Management	6,349	50	↑	Market appreciation and improving flows
Net Interest / Other	1,478	12	↑	Higher rates
<b>Total</b>	<b>12,636</b>	<b>100</b>	↑	

Financial Sensitivity – Market Levels & Interest Rates	PBT Margin <sup>(2)</sup>
100 Point Change in S&P 500 Index	~1%
50bps Change in Fed Funds Rate	~1%

**Source:**

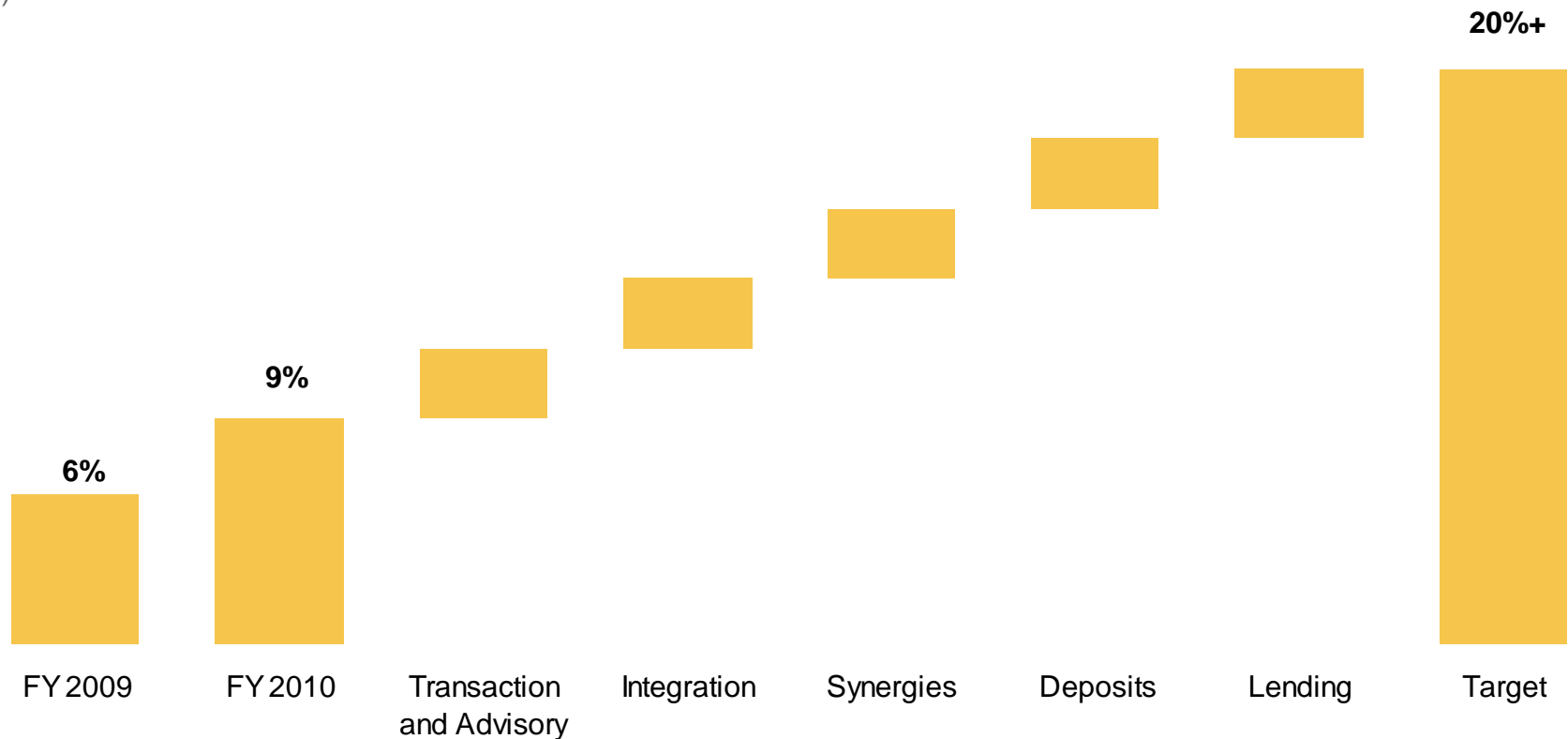
Morgan Stanley SEC Filings and 4Q10 earnings release

- (1) Transaction based revenues include investment banking, commissions and principal trading revenues.
- (2) Morgan Stanley estimates.

# GWM – Clear Path to 20%+ Margins

## Pre-Tax Profit Margins

(%)



# GWM – Integration on Track to Meet Targets

## Delivered Key Integration Milestones as Scheduled

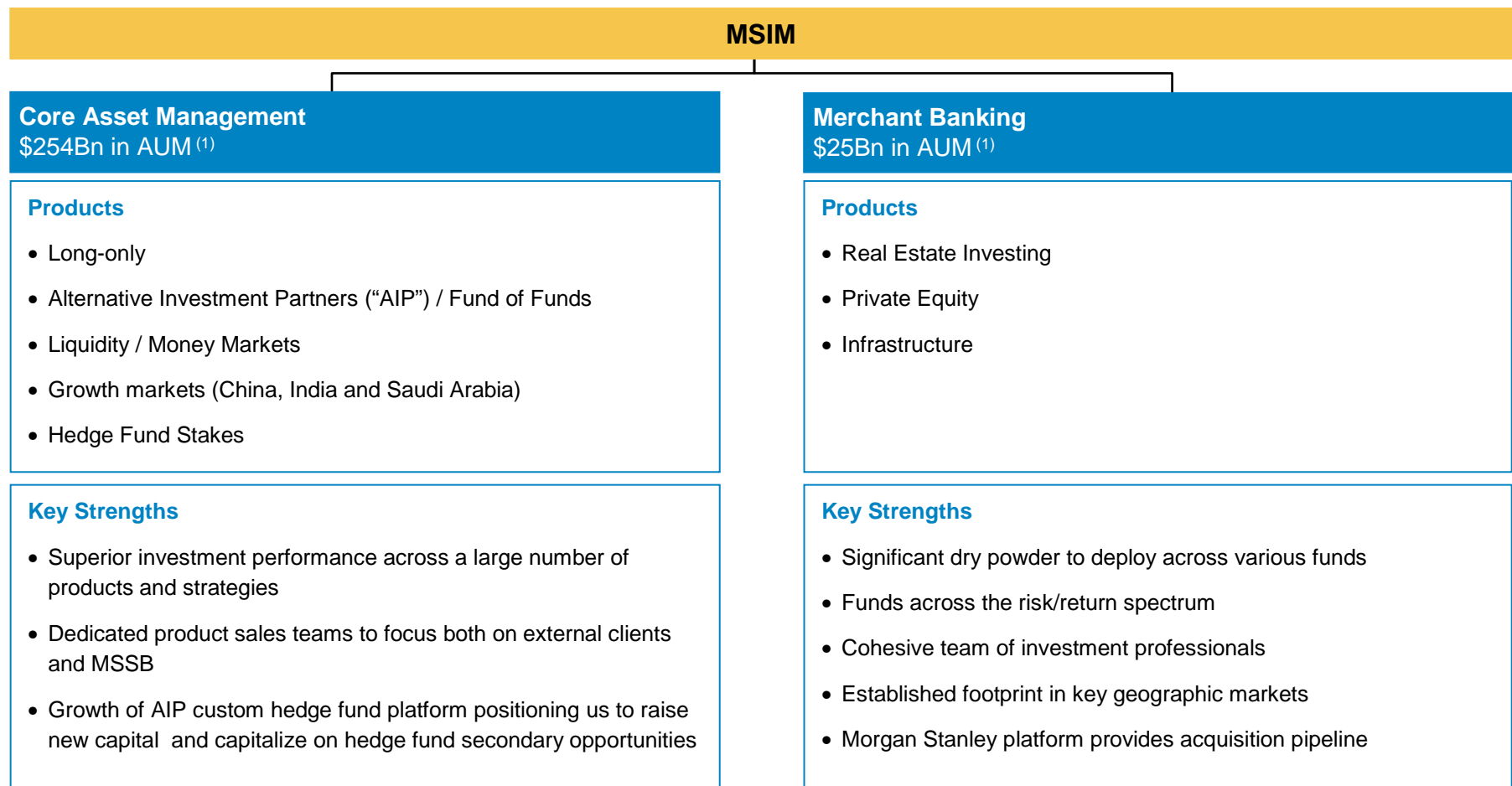
	2009	2010	2011	2012
<ul style="list-style-type: none"> <li>• <b>Achieved major milestones</b> <ul style="list-style-type: none"> <li>– Aligned FA compensation</li> <li>– Rolled out consistent pricing</li> <li>– Streamlined management</li> <li>– Rationalization of branches</li> </ul> </li> <li>• <b>IT integration on track</b> <ul style="list-style-type: none"> <li>– Consolidate 3 platforms into 1</li> </ul> </li> <li>• <b>Identified integration-specific costs</b></li> </ul>	<ul style="list-style-type: none"> <li>• Senior Management ✓</li> <li>• Branch Management ✓</li> <li>• Purchase HQ ✓</li> <li>• Target operating model design ✓</li> </ul>	<ul style="list-style-type: none"> <li>• FA compensation ✓</li> <li>• Pricing ✓</li> <li>• Morgan Stanley self-clearing ✓</li> <li>• Mutual fund accounting system conversion ✓</li> </ul>	<ul style="list-style-type: none"> <li>• New platform testing environment</li> <li>• Branch workflow automation</li> <li>• New account opening</li> <li>• Morgan Stanley side training</li> <li>• Morgan Stanley conversion to new platform</li> <li>• Stabilization of new platform functionality</li> <li>• Testing of Smith Barney data conversion</li> <li>• Training begins on Smith Barney side</li> </ul>	<ul style="list-style-type: none"> <li>• Smith Barney conversion to new platform</li> <li>• PWM Conversion</li> <li>• Completion of operations and technology synergy capture</li> </ul>

# Morgan Stanley Investment Management

Morgan Stanley

This slide is part of a presentation by Morgan Stanley and is intended to be viewed as part of that presentation. The presentation is based on information generally available to the public and does not contain any material, non-public information. The presentation has not been updated since it was originally presented.

# MSIM – Overview



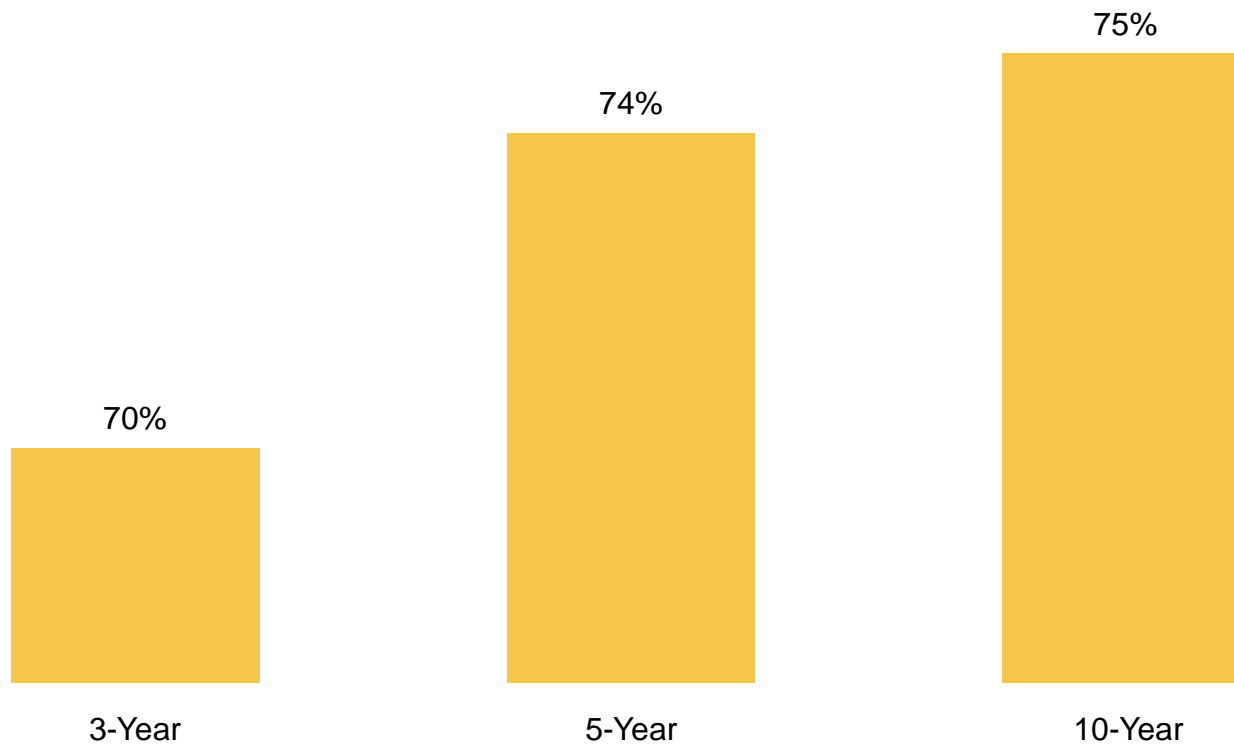
Source:  
Morgan Stanley SEC Filings

(1) As of December 31, 2010; Core Asset Management includes \$7 billion in AUM related to Hedge Fund Stakes.

# MSIM – Performance (Long Only Strategies)

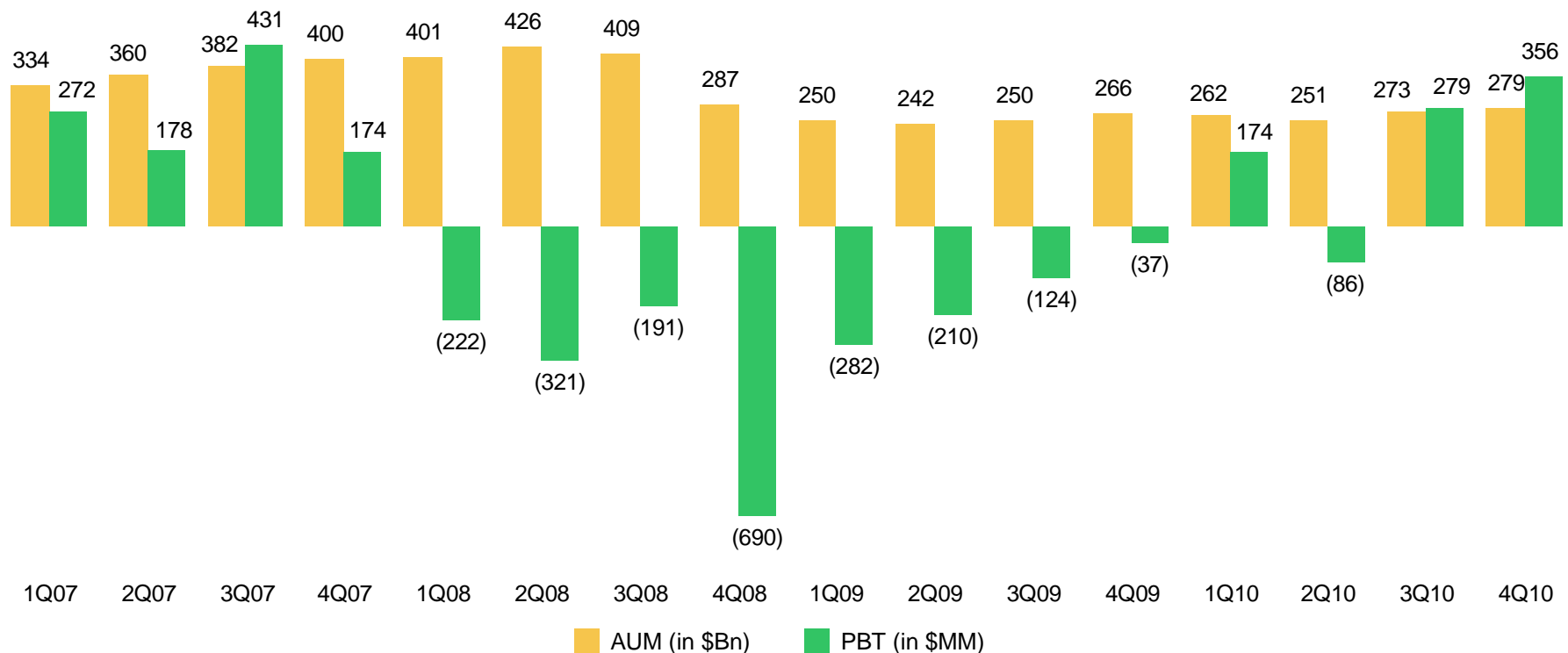
70%+ of Long Only Strategies outperform respective benchmarks over 3, 5, and 10 years  
As of December 31, 2010

**% Strategies > Benchmark**  
(%)



# MSIM – Business Stabilizing

MSIM AUM and PBT <sup>(1)</sup> 1Q 2007 – 4Q 2010



**Source:**

Morgan Stanley SEC Filings and 4Q10 earnings release. Historical MSIM AUM and PBT (excludes sold retail asset management business). Results are for Fiscal Year 2007 and 2008 and Calendar Year 2009 and 2010.

(1) PBT: including Non-Controlling Interest.



# MSIM – Restructuring to Drive Profitability

## Operational Changes

- |   |         |
|---|---------|
| • Significant senior management recruiting and repositioning                                | ✓       |
| • Closed Invesco transaction – June 1, 2010   | ✓       |
| • Outsourcing non-core operations and streamlining operations                               | Ongoing |
| • Enhanced governance and tightened focus on business, investment and financial performance | Ongoing |
| • Crystallized and communicating strategy to various constituencies                         | Ongoing |
| • Conducting frequent global and regional town halls to reinforce investment culture        | Ongoing |

## Reallocating Capital

- |  |         |
|--|---------|
| • Sold Invesco equity stake  | ✓       |
| • Restructuring ownership of FrontPoint  | Ongoing |
| • Reducing capital commitments to seed investments and minority hedge funds stakes | Ongoing |

# Management Business Objectives

## Four Pronged Approach to Generating Attractive Shareholder Returns

1

- Focusing on building balance sheet “lite” businesses

2

- Reallocating capital across businesses, specifically:
  - Reducing capital allocated to Merchant Banking
  - Phasing out remaining proprietary trading (e.g., PDT)
  - Allocating less balance sheet to capital intensive businesses

3

- Generating higher ROA from remaining balance sheet intensive businesses

4

- Operating business units and support functions with full earnings accountability

Morgan Stanley

## Morgan Stanley U.S. Financials Conference

James P. Gorman, President and Chief Executive Officer

February 1, 2011