

# Discretionary Management Service

## Program Guidelines

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These guidelines provide a risk control framework and encourage portfolio diversification by limiting total exposure to individual securities, sectors and asset classes. We review these guidelines on a regular basis and they are subject to change.

### Minimum Account Size

The minimum account size for Discretionary Management Service (DMS) accounts is \$250,000.

### Minimum Number of Securities

Portfolios must contain a minimum of 10 securities. Due to the diversified nature of managed funds and exchange traded funds they will each be counted as two securities towards the total.

Bank bills and term deposits will count towards the minimum number of securities, but the DMS Cash Management Account (CMA) will not.

### Investment Strategies – Asset Allocation Ranges

Clients can select one of five investment strategies within the DMS product

depending on their objectives, investment time horizon and attitude to risk.

### Managed Funds

Managed funds are allocated to the most appropriate asset class based on their Morning Star classification. For example, a managed fund that trades predominantly in Australian equities will be allocated to the Australian equity asset class.

Diversified managed funds (e.g. balanced funds) will fall into the “Other” asset class.

Managed funds will not be split across multiple asset classes based on their underlying investments.

### ASX/S&P 300 Preferred Stock Process

Using Morgan Stanley research and market consensus research, we have developed an Australian equity preferred stock process.

Equities are considered preferred stocks if they meet one of the following criteria:

- Rated Overweight or Neutral by Morgan Stanley
- Rated Buy or Hold by market consensus

The total value of non-preferred stocks within a DMS account should not exceed 10% of the total account value.

### Individual Stock Concentration Limits

Individual stock concentration limits apply and are calculated based on the total account value. Financial advisers can purchase securities up to the buy limit. If a security out-performs the rest of the portfolio, it can be held up to the hold limit.

**Table 1: Asset Allocation Limits****Conservative**

	Equity Minimum	Minimum	Maximum	Equity Maximum
Australian Equities		0%	25%	
International Equities	0%	0%	20%	40%
Property		0%	15%	
Fixed Income	–	20%	70%	–
Alternatives	–	0%	0%	–
Cash	–	10%	80%	–

**Moderately Conservative**

	Equity Minimum	Minimum	Maximum	Equity Maximum
Australian Equities		5%	35%	
International Equities	5%	0%	30%	50%
Property		0%	20%	
Fixed Income	–	15%	60%	–
Alternatives	–	0%	15%	–
Cash	–	5%	65%	–

**Balanced**

	Equity Minimum	Minimum	Maximum	Equity Maximum
Australian Equities		10%	50%	
International Equities	20%	0%	45%	75%
Property		0%	20%	
Fixed Income	–	10%	50%	–
Alternatives	–	0%	20%	–
Cash	–	1%	65%	–

**Growth**

	Equity Minimum	Minimum	Maximum	Equity Maximum
Australian Equities		20%	70%	
International Equities	40%	0%	55%	95%
Property		0%	20%	
Fixed Income	–	0%	30%	–
Alternatives	–	0%	30%	–
Cash	–	0%	50%	–

**Unconstrained**

	Equity Minimum	Minimum	Maximum	Equity Maximum
Australian Equities	–	0%	100%	–
International Equities	–	0%	50%	–
Property	–	0%	50%	–
Fixed Income	–	0%	100%	–
Alternatives	–	0%	35%	–
Cash	–	0%	70%	–

Once it exceeds the hold limit the security must be trimmed to bring it back below the hold limit.

Refer to Table 1 for the individual stock concentration limits.

**Small Cap Concentration Limits**

Limits apply to the total exposure to small cap equity or property stocks and are calculated based on the total value of Australian equities or property asset class. Financial advisers can purchase securities up to the buy limit. If the equity or property securities out-performs the rest of the portfolio it can be held up to the hold limit. Once it goes beyond the hold limit the security must be trimmed to bring it back below the hold limit. Refer to Table 2 for the limit thresholds.

**Table 2: Small Cap Concentration Limits****Security Type**

	Buy Limit	Hold Limit
S&P/ASX 50 Equities	20%	25%
S&P/ASX 51 to 200	15%	20%
S&P/ASX 201 to 300	3%	5%
Total Small Cap Property Exposure (S&P ASX 201 to 300)	10%	15%
Managed Funds, ETFs, LICs, Bonds & Hybrids	30%	35%

**Global Industry Classification Standard (GICS) Sector Limits**

Limits apply to the total exposure to Australian equity GICS sectors and are calculated based on the total value of the Australian equities asset class. Financial advisers can purchase securities up to the buy limit. If a sector out-performs the rest of the portfolio, the securities can be held up to the hold limit. Once they go beyond the hold limit, the securities must be trimmed to bring them back to the hold limit. Refer to Table 3.

**Table 3: Global Industry Classification Standard (GICS) Sector Limits**

Security Type	Buy Limit	Hold Limit
Communication Services		
Consumer Discretionary		
Consumer Staples		
Energy		
Health Care	35%	45%
Industrials		
Information Technology		
Real Estate		
Utilities		
Financials (excluding Property)	50%	60%
Materials		

**Client Restrictions**

Within the DMS product, we are able to accept client restrictions in one of three formats:

**ASX SECURITY RESTRICTIONS**

Clients can elect to have “Do Not Buy” or “Do Not Sell” restrictions on individual securities.

Clients can also elect to narrow the S&P/ASX300 investment universe to the S&P/ASX200. This will apply to both Australian equity and property stocks.

Managed funds, listed investment companies and exchange traded funds are not affected by this restriction and can still be included in accounts.

**ISSUER RESTRICTIONS**

Clients can elect to have “Do Not Buy” or “Do Not Sell” restrictions applied to an issuer of securities, e.g. “Do Not Buy any securities issued by BHP”. This restriction would include all securities issued by BHP including ordinary shares, listed debt, hybrids etc.

**SECTOR RESTRICTIONS**

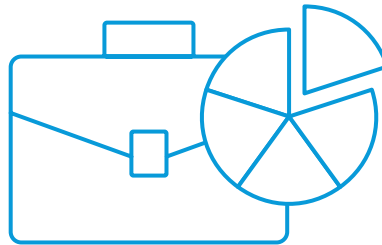
Clients can elect to have “Do Not Buy” or “Do Not Sell” restrictions applied to any GICS grouping.

Client restrictions can be accepted at any one of these five GICS levels:

- Sector
- Industry Group
- Industry
- Sub-industry
- Security Type

**SECURITY TYPE RESTRICTION**

Clients can elect to have “Do Not Buy” or “Do Not Sell” restrictions applied to Security Type. E.g. “Do Not Buy Australian bank hybrids”. This will restrict all hybrids issued by Australian banks.

**Table 4: Eligible Investments****Australian Equities**

S&P/ASX 300 Equities - excluding Real Estate Investment Trusts (REITs) which are included in a separate asset class

Approved ASX listed Australian equity Exchange Traded Funds (ETFs) and Listed Investment Companies (LICs)

Approved Australian Equity Managed funds

**International Equities**

Approved ASX listed international equity Exchange Traded Funds (ETFs) and Listed Investment Companies (LICs)

Approved International Equity Managed funds

**Property**

S&P/ASX 300 property stocks (GICS code 4040)

Approved ASX listed property Exchange Traded Funds (ETFs) and Listed Investment Companies (LICs)

Approved Property Managed funds

**Compliance Restricted List**

Financial advisers cannot trade in stocks when prohibited from doing so by the “Compliance Restricted List”.

The list includes specific categories for discretionary account trading.

**Prohibited Investments**

Securities in which Morgan Stanley or its affiliates have a product development role are prohibited in the DMS program.

**More Information**

Refer to the Discretionary Management Service Guide for further details.

If you have any questions, please contact your Morgan Stanley financial adviser on 13 13 70.

**Fixed Income**

Approved ASX listed hybrids/convertibles/debt

Approved ASX listed fixed income Exchange Traded Funds (ETFs) and Listed Investment Companies (LICs)

Approved Fixed Income Managed funds

Approved primary market issuances of fixed income securities including bank hybrid securities

**Alternative Investments**

Approved Alternative Investment funds

Other approved alternative investment products and Exchange Traded Funds (ETFs)

**Cash**

Macquarie Cash Management Account (CMA)

Approved term deposits

Approved bank bills

Approved Cash Managed funds

**Other**

Bought protective puts over S&P/ASX 200 equities

Bought protective puts over an S&P/ASX index

Sold covered calls over S&P/ASX 200 equities

Approved Diversified Managed funds\*

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