REDWOOD TRUST INC
Form 10-Q
August 04, 2011

UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended: June 30, 2011

OR

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to .

Commission File Number 1-13759

REDWOOD TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	68-0329422 (I.R.S. Employer Identification No.)
One Belvedere Place, Suite 300 Mill Valley, California (Address of Principal Executive Offices)	94941 (Zip Code)

(415) 389-7373

(Registrant s Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, $0.01 par value per share	78,706,126 shares outstanding as of August 3, 2011

REDWOOD TRUST, INC.
2011 FORM 10-Q REPORT

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REDWOOD TRUST, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Data) (Unaudited)	June 30, 2011	December 31, 2010
ASSETS		
Residential real estate loans	$3,860,233	$3,797,095
Commercial real estate loans	83,866	50,386
Real estate securities, at fair value:		
Trading securities	296,978	329,717
Available-for-sale securities	740,623	825,119
Total real estate securities	1,037,601	1,154,836
Other investments		
Cash and cash equivalents	79,977	46,937
Total earning assets	5,061,677	5,049,254
Restricted cash	35,673	24,524
Accrued interest receivable	13,690	13,782
Derivative assets	4,013	8,051
Deferred tax asset		3,487
Deferred securities issuance costs	6,472	5,928
Other assets	43,463	38,662
Total Assets(1)	$5,164,988	$5,143,688
LIABILITIES AND EQUITY		
Liabilities		
Short-term debt	$40,891	$44,137
Accrued interest payable	6,422	5,930
Derivative liabilities	82,639	83,115
Accrued expenses and other liabilities	9,954	14,305
Dividends payable	19,640	19,531
Asset-backed securities issued Sequoia	3,566,001	3,458,501
Asset-backed securities issued Acacia	273,325	303,077
Long-term debt	139,500	139,500
Total liabilities(2)	4,138,372	4,068,096
Equity		
Common stock, par value $0.01 per share, 125,000,000 shares authorized; 78,554,965 and 78,124,668 issued and outstanding	786	781
Additional paid-in capital	1,694,077	1,689,851
Accumulated other comprehensive income	80,621	112,339
Cumulative earnings	502,544	474,940
Cumulative distributions to stockholders	(1,253,518)	(1,213,158)

Total stockholders equity	1,024,510	1,064,753
Noncontrolling interest	2,106	10,839
Total equity	1,026,616	1,075,592
Total Liabilities and Equity	$5,164,988	$5,143,688

(1) Our consolidated balance sheets include assets of consolidated variable interest entities (VIEs) that can only be used to settle obligations of these VIEs. At June 30, 2011 and December 31, 2010, these assets totaled $4,005,933 and $3,941,212, respectively.

(2) Our consolidated balance sheets include liabilities of consolidated VIEs for which creditors do not have recourse to the primary beneficiary (Redwood Trust, Inc.). At June 30, 2011 and December 31, 2010, these liabilities totaled $3,912,958 and $3,838,386, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

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REDWOOD TRUST, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,	
	2011	2010
	$18,904	$15,746
	1,800	269
	32,234	40,458
		4
	17	93
	52,955	56,570
	(7)	(36)
	(21,251)	(18,988)
	(2,375)	(2,140)
	(23,633)	(21,164)
	29,322	35,406
	(1,581)	(4,321)
	(9,681)	(2,909)
1)	(1,466)	(4,216)
	(11,147)	(7,125)

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Based on the Value of the Morgan Stanley MAP Trend Index

There can be no assurance that the actual volatility of the underlying index will be lower than the vol any or all of the Index Components. The underlying index's exposure to each Index Component is adjust a volatility-scaling mechanism that seeks to target a volatility of 5% for the underlying index. However, as volatility-scaling mechanism looks to trends that have occurred in the past to then make adjustments to futu positions, it is unlikely that the underlying index will achieve the target volatility in any Index Component given period of time. The actual volatility achieved by the underlying index overall, as well as the volatility for each Index Component, will likely differ – perhaps significantly – from the Volatility Target.

The volatility target feature of the underlying index may dampen its performance in bullish The underlying index is designed to achieve a Volatility Target of 5% regardless of the direction movements in the market. Therefore, in bullish markets, if the realized volatility is higher than the Volatility Target, the adjustments to the Asset Portfolio of the underlying index through Daily Re might dampen the performance of the underlying index. The selection of the Index Components, the Volatility Target feature, may cause the underlying index to underperform one or more of the Components.

The value of the underlying index and any instrument linked to the underlying index may increase o due to a number of factors, many of which are beyond our control. The nature and weighting of the ET vary significantly, and no assurance can be given as to the allocation of any ETF at any time.

The future performance of the underlying index may bear little or no relation to the historical or hyp retrospective performance of the underlying index. Among other things, the trading prices of the ETFs a dividends paid on the ETFs will impact the level and the volatility of the underlying index. It is impossible whether the level of the underlying index will rise or fall. The fact that a given allocation among the Asset performed well over any look-back period does not mean that such allocation will continue to perform well future. Future market conditions may differ from past market conditions, and the conditions that may have favorable historical performance may no longer exist. Furthermore, by continually seeking to track the Ass Portfolio that would have been the best-performing portfolio (subject to constraints) over a look-back perio underlying index may perpetually be too late, and it may perpetually "buy high." By the time the underlyin hypothetically invests in a portfolio of ETFs, the ETFs in that portfolio may already have experienced signi appreciation. The underlying index may therefore perpetually make hypothetical investments in portfolios are expensive, which may lead to poor returns.

The underlying index is particularly susceptible to "choppy" markets. Past performance is particularly a poor indicator of future performance in "choppy" markets, which are characterized by short-term volatilit absence of consistent long-term performance trends. In such markets, strategies that use past performance a indicator of future performance, such as that followed by the underlying index, are subject to "whipsaws," when the market reverses and does the opposite of what is indicated by past performance. The underlying i experience significant declines in such markets.

The underlying index has fixed weighting constraints. The index applies limits to the weight that may b
to each ETF. These limits are fixed and may skew the allocations among the ETFs in a way that reduces th
performance of the underlying index. For example, because of the weighting constraints, the underlying in
not allocate all of its exposure to the single ETF with the best performance over the prior six months, even
ETF had a realized volatility of less than 5%. Instead, the weighting constraints require the underlying ind
spread its exposure over all the ETFs, even if one or more of those ETFs had unfavorable returns over the
look-back period. Additionally, the weighting constraints mean that the underlying index must have some
to all of the ETFs at all times, even when there is no Asset Portfolio that would be expected to appreciate b
are in decline. The underlying index will not take a "short" position in any Index

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Component, even if the relevant Index Component displays a negative performance over the relevant look-l
period.

The underlying index was established on March 7, 2017 and therefore has a very limited history. The
performances of the underlying index and some of the component data have been retrospectively simulated
period from September 22, 2003 to March 7, 2017. As such, performance for periods prior to the establishm
underlying index has been retrospectively simulated by Morgan Stanley & Co. LLC on a hypothetical basis
retrospective simulation means that no actual investment which allowed a tracking of the performance of th
underlying index existed at any time during the period of the retrospective simulation. The methodology an
underlying index used for the calculation and retrospective simulation of the underlying index has been dev
with the advantage of hindsight. In reality, it is not possible to invest with the advantage of hindsight and th
this historical performance is purely theoretical and may not be indicative of future performance. In additio
Morgan Stanley Two Year Treasury Index and certain ETFs included in the Index Components existed for
portion of the period for which Morgan Stanley & Co. LLC has calculated hypothetical retrospective value
period during which data for the Morgan Stanley Two Year Treasury Index or one or more ETFs did not ex
historical simulation is based on (i) the value of the Morgan Stanley Two Year Treasury Index based on sin
historical performance and (ii) the value of each ETF's benchmark index less the relevant ETF's current ex
Investors should be aware that no actual investment which allowed a tracking of the performance of the un
index was possible at any time prior to March 7, 2017. Such data must be considered illustrative only. The
data may not reflect future performance and no assurance can be given as to the level of the underlying ind
time. Because the Morgan Stanley Two Year Treasury Index and certain ETFs included in the Index Comp
existed for only a portion of the back-tested period, substitute data have been used for portions of the simul
Wherever data for the Morgan Stanley Two Year Treasury Index or one or more ETFs did not exist, the sin
has included (i) the value of the Morgan Stanley Two Year Treasury Index based on simulated historical
performance and (ii) the value of each ETF's benchmark index less the relevant current expense ratio. The
corresponding fund inception dates) for which substitute data have been used for all periods prior to the rel
inception date are: USMV (October 20, 2011), DVY (November 7, 2003), HYG (April 11, 2007), AGG (Se
26, 2003), EMB (December 19, 2007), TIP (December 5, 2003), PFF (March 30, 2007), GLD (November 1
USO (April 10, 2006), VNQ (September 29, 2004) and UUP (February 20, 2007).

**As the underlying index is new and has very limited actual historical performance, any investment in
underlying index may involve greater risk than an investment in an index with longer actual historica
performance and a proven track record.** All information regarding the performance of the underlying in
to March 7, 2017 is hypothetical and back-tested, as the underlying index did not exist prior to that time. It
important to understand that hypothetical back-tested index performance information is subject to significa
limitations, in addition to the fact that past performance is never a guarantee of future performance. In parti

Morgan Stanley & Co. International plc developed the rules of the underlying index with the benefit of hin
is, with the benefit of being able to evaluate how the underlying index rules would have caused the underly

to perform had it existed during the hypothetical back-tested period.

According to Morgan Stanley & Co. International plc, for time periods prior to the launch of an Index Com
and that Index Component's initial satisfaction of a minimum liquidity standard, the hypothetical back-test
included in this note were calculated using alternative performance information derived from a related inde
deducting hypothetical fund fees, rather than the performance information for that Index Component. This
performance information may differ, perhaps significantly, from the manner in which the relevant Index C
would have performed during the relevant period. As a result, the hypothetical back-

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Based on the Value of the Morgan Stanley MAP Trend Index

tested index performance information, to the extent that it utilizes this alternative performance information, reflect how the underlying index would have performed had it instead utilized the actual performance of the Index Components.

Certain of the Index Components have changed the underlying indices that they seek to track or track unde indices that have made changes to their rules. As a result of these changes, the underlying indices to be trac future by certain of the Index Components differ in certain respects from the underlying indices tracked by Index Components during certain portions of the back-tested period. The sponsor of any Index Component underlying index may make additional changes in the future. The hypothetical back-tested index performan not reflect how the underlying index would have performed had the relevant Index Components tracked the underlying indices (with the same rules) during the full back-tested period that they will track in the future.

The hypothetical back-tested performance of the underlying index might look different if it covered a diffe historical period. The market conditions that existed during the historical period covered by the hypothetica back-tested index performance information in this note are not necessarily representative of the market con that will exist in the future.

It is impossible to predict whether the underlying index will rise or fall. The actual future performance of th underlying index may bear little relation to the historical or hypothetical back-tested levels of the underlyin

The underlying index is reduced by an excess return cost. The level of the underlying index is calculate excess of the weighted return of the Asset Portfolio over an equivalent cash investment receiving the 3-mo LIBOR. As a result, the level of the underlying index reflects a deduction of the 3-month LIBOR that woul such a cash investment, and is therefore less than the return on the weighted Asset Portfolio absent such ex cost. Changes in the 3-month LIBOR will affect the value of the underlying index. In particular, an increas 3-month LIBOR will negatively affect the value of the underlying index. Interest rates, especially short-ter such as 3-month USD LIBOR, are significantly influenced by the Federal Reserve's monetary policy. Alth Federal Reserve has maintained interest rates at relatively low levels in recent years, the Federal Reserve m its monetary policy at any time. The Federal Reserve has recently begun to raise interest rates and may con do so in the future. If the Federal Reserve raises interest rates again, or if interest rates otherwise rise, the u index may be adversely affected. You should understand that interest rates are influenced by matters other Federal Reserve's monetary policy, and that interest rates may increase even if monetary policy does not ch example, interest rates may be sensitive to perceptions about the creditworthiness of the U.S. government. Standard & Poor's downgraded the U.S. government's credit rating. Any further downgrades in the credit r perceived creditworthiness of the U.S. government could increase the U.S. government's borrowing rates, could have ripple effects that increase general interest rates, including 3-month USD LIBOR.

The underlying index contains embedded costs. In addition to the excess return deduction, as described i
detail under "Annex A—Morgan Stanley MAP Trend Index" below, the underlying index contains an embe
servicing cost of 0.85% per annum, calculated on a daily basis. Such cost is deducted when calculating the
the underlying index and will thus reduce the return of the underlying index.

**An investment in the notes involves risks associated with emerging markets equities and bonds, curr
exchange rates and commodities.** ETFs representing foreign equities (including emerging markets equitie
constitute up to 10% of the underlying index. The underlying index can also consist of certain ETFs repres
emerging markets bonds. Therefore, an investment in the notes involves risks associated with the securities
in those foreign markets and emerging

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markets countries, including but not limited to risks of volatility in those markets, governmental interventio markets and cross-shareholdings in companies in certain countries. The prices of securities issued in foreig may be affected by political, economic, financial and social factors in those countries, or global regions, inc changes in government, economic and fiscal policies and currency exchange laws. In addition, because the an ETF representing foreign securities is generally related to the U.S. dollar value of securities underlying t tracked by such ETF, an investment in the notes involve currency exchange rate risk with respect to each of currencies in which such securities trade. Exchange rate movements for a particular currency are volatile ar result of numerous factors including the supply of, and the demand for, those currencies, as well as relevant government policy, intervention or actions, but are also influenced significantly from time to time by politic economic developments, and by macroeconomic factors and speculative actions related to the relevant regi

In addition, potential underlying index components also include ETFs representing commodities and thus ir instruments linked to the underlying index are exposed to risks associated with commodities. Investments l the prices of commodities are subject to sharp fluctuations in the prices of commodities over short periods o a variety of factors, including: changes in supply and demand relationships; weather; climatic events; the oc of natural disasters; wars; political and civil upheavals; acts of terrorism; trade, fiscal, monetary, and excha control programs; domestic and foreign political and economic events and policies; disease; pestilence; tec developments; changes in interest rates; and trading activities in commodities and related contracts. These f may affect the prices of commodities and therefore the value of the underlying index and the notes, in varyi potentially inconsistent ways.

Changes in the value of the Index Components may offset each other. Because the Index Components r range of asset classes and geographic regions, price movements of Index Components representing differen classes or geographic regions may not correlate with each other. At a time when the value of an Index Com representing a particular asset class or geographic region increases, the value of other Index Components representing different asset classes or geographic regions may not increase as much or may decline. Theref calculating the level of the underlying index, increases in the value of some of the Index Components may moderated, or more than offset, by lesser increases or declines in the level of other Index Components.

The Morgan Stanley Two Year Treasury Index can produce negative returns, which may have an ad effect on the level of the respective Sub-Indices, and consequently, the level of the index. The Index methodology for the Morgan Stanley Two Year Treasury Index was developed based on historical data and conditions, and there can be no assurances that the methodology can generate positive performance in the f Therefore, the past performance of the Morgan Stanley Two Year Treasury Index, whether actual or retrosp calculated, is not a reliable indication of future performance. Poor performance by the Morgan Stanley Two Treasury Index will have a negative effect on the performance of the respective Sub-Indices, and conseque performance of the index.

Adjustments to the underlying index could adversely affect the value of instruments linked to the und index. Morgan Stanley & Co. LLC, as the Calculation Agent and the Index Sponsor, can add, delete and/or the Index Components, and can make other methodological changes required by certain events relating to t Components. Any of these actions could adversely affect the value of instruments linked to the underlying Morgan Stanley & Co. LLC may also discontinue or suspend calculation or publication of the underlying in any time. Morgan Stanley & Co. LLC could have an economic interest that is different than that of investor instruments linked to the underlying index.

Investing in the notes is not equivalent to investing in the underlying index. Investing in the notes is n equivalent to investing in the underlying index or its component ETFs or the

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Morgan Stanley Two Year Treasury Index**.** Investors in the notes will not have voting rights or rights to rec dividends or other distributions or any other right with respect to the component ETFs of the underlying inc "Hypothetical Examples" above.

Reliance on information. Unless otherwise stated, all calculations are based on information obtained from publicly-available sources. Morgan Stanley has relied on these sources and not independently verified the information extracted from these sources. Morgan Stanley shall not be liable in any way for any calculation performs in reliance on such information. The information used to undertake the Daily Rebalancings for th underlying index will be the most up-to-date information available.

Research. Morgan Stanley may issue research reports on securities that are, or may become, co of an Index Component or an Index Component. These reports are entirely independent of the c agent's obligations hereunder. Morgan Stanley will be under no obligation to make any adjustm underlying index or to reflect any change in outlook by Morgan Stanley Research.

MS & Co., which is a subsidiary of Morgan Stanley and an affiliate of MSFL, is both the calculation the underlying index publisher, and will make determinations with respect to the notes and the unde index. As calculation agent, MS & Co. has determined the initial index value and the redemption threshold will determine whether the notes will be redeemed on any early redemption date and the final index value a calculate the amount of cash you will receive at maturity. Determinations made by MS & Co. in its capacit calculation agent, including with respect to the occurrence or non-occurrence of market disruption events a selection of a successor index or calculation of the alternate payment amount in the event of a discontinuan underlying index or a market disruption event, may adversely affect the payout to you at maturity.

MS & Co. is also the underlying index publisher and retains the final discretion as to the manner in which t underlying index is calculated and constructed. The underlying index publisher may change the methodolog underlying index or discontinue the publication of the underlying index without prior notice, and such chan discontinuance may affect the value of the underlying index. The underlying index publisher's calculations determinations in relation to the underlying index shall be binding in the absence of manifest error.

In performing its duties as the calculation agent of the notes and the underlying index publisher, MS & Co. interests adverse to your interests, which may affect the value of the underlying index and the value of the r

The rate we are willing to pay for securities of this type, maturity and issuance size is likely to be low the rate implied by our secondary market credit spreads and advantageous to us. Both the lower rate inclusion of costs associated with issuing, selling, structuring and hedging the notes in the original iss reduce the economic terms of the notes, cause the estimated value of the notes to be less than the orig price and will adversely affect secondary market prices. Assuming no change in market conditions or an relevant factors, the prices, if any, at which dealers, including MS & Co., may be willing to purchase the no secondary market transactions will likely be significantly lower than the original issue price, because secon market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the issue price and borne by you and because the secondary market prices will reflect our secondary market cre spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the notes in the original issue price an lower rate we are willing to pay as issuer make the economic terms of the notes less favorable to you than t otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the notes are not fully upon issuance, for a period of up to 12 months following the issue date, to the extent that MS & Co. may bu the notes in the secondary market, absent changes in market conditions, including those related

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to the underlying index, and to our secondary market credit spreads, it would do so based on values higher t
estimated value, and we expect that those higher values will also be reflected in your brokerage account sta

The estimated value of the notes is determined by reference to our pricing and valuation models, whi differ from those of other dealers and is not a maximum or minimum secondary market price. These and valuation models are proprietary and rely in part on subjective views of certain market inputs and certa assumptions about future events, which may prove to be incorrect. As a result, because there is no market-s way to value these types of securities, our models may yield a higher estimated value of the notes than thos generated by others, including other dealers in the market, if they attempted to value the notes. In addition, estimated value on the pricing date does not represent a minimum or maximum price at which dealers, incl & Co., would be willing to purchase your notes in the secondary market (if any exists) at any time. The val notes at any time after the date of this document will vary based on many factors that cannot be predicted v accuracy, including our creditworthiness and changes in market conditions. See also “The market price of t will be influenced by many unpredictable factors” above.

Adjustments to the underlying index could adversely affect the value of the notes. MS & Co., as the u index publisher, can add, delete or substitute the Index Components, and can make other methodological c required by certain events relating to the Index Components. Any of these actions could adversely affect th the notes. The underlying index publisher may also discontinue or suspend calculation or publication of the underlying index at any time. In these circumstances, MS & Co., as the calculation agent, will have the sol discretion to substitute a successor index that is comparable to the discontinued index. MS & Co., in its ca both the calculation agent for the notes and underlying index publisher, could have an economic interest th different than that of investors in the notes.

Investing in the notes is not equivalent to investing in the underlying index. Investing in the notes is no equivalent to investing in the underlying index or its component ETFs. Investors in the notes will not have rights or rights to receive dividends or other distributions or any other right with respect to the component the underlying index.

The notes will not be listed on any securities exchange and secondary trading may be limited. Accord you should be willing to hold your notes for the entire 7-year term of the notes. The notes will not be l any securities exchange. Therefore, there may be little or no secondary market for the notes. MS & Co. ma not obligated to, make a market in the notes and, if it once chooses to make a market, may cease doing so a time. When it does make a market, it will generally do so for transactions of routine secondary market size based on its estimate of the current value of the notes, taking into account its bid/offer spread, our credit sp market volatility, the notional size of the proposed sale, the cost of unwinding any related hedging position remaining to maturity and the likelihood that it will be able to resell the notes. Even if there is a secondary may not provide enough liquidity to allow you to trade or sell the notes easily. Since other broker-dealers m

participate significantly in the secondary market for the notes, the price at which you may be able to trade y
is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co.
cease making a market in the notes, it is likely that there would be no secondary market for the notes. Acco
you should be willing to hold your notes to maturity.

Hedging and trading activity by our affiliates could potentially adversely affect the value of the notes
more of our affiliates and/or third-party dealers have carried out, and will continue to carry out, hedging ac
related to the notes (and to other instruments linked to the underlying index or its component ETFs or the M
Stanley Two Year Treasury Index), including trading in the component ETFs and in other instruments relat
underlying index. As a result, these entities may be unwinding or adjusting hedge positions during the term
notes, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge a
determination date approaches. Some of our affiliates also trade the component ETFs of the underlying ind
other financial instruments related to the underlying index on a regular basis as part of their general broker-
and other businesses. Any of these hedging or trading activities on or prior to the pricing date could have in
the initial index value, and, therefore, could have increased the values at or above which the underlying ind
close on the determination dates so that the notes are redeemed prior to

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maturity for the early redemption payment, and the value above which the underlying index must close on t determination date (if the notes are not redeemed prior to maturity) so that you receive a positive return on t at maturity. Additionally, such hedging or trading activities during the term of the notes, including on the determination dates, could adversely affect the closing value of the underlying index on the determination d accordingly, whether we redeem the notes prior to maturity and the amount of cash an investor will receive maturity.

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Morgan Stanley MAP Trend Index Overview

The Morgan Stanley MAP Trend Index has been developed by and is calculated, published and rebalanced Co as the "index publisher." The index employs a rules-based quantitative strategy that combines a risk-we approach to portfolio construction with a momentum-based, or trend-following, asset allocation methodolo construct a notional portfolio. In addition, the strategy imposes an overall volatility-targeting feature upon resulting portfolio. The goal of the index is to maximize returns for a given level of risk based upon recent the underlying assets. The investment assumption underlying the allocation strategy is two-fold: that histori volatility of the underlying assets can be used to risk-weight a portfolio, and that past trends are likely to co be a good indicator of the future performance of that portfolio. The index therefore seeks to capture returns risk-weighted positions indicated by such trends. For additional information about the Morgan Stanley MA Index, see the information set forth under "Annex A—Morgan Stanley MAP Trend Index" below.

Hypothetical Retrospective and Historical Information

The inception date for the underlying index was March 7, 2017. The information regarding the underlying i to March 7, 2017 is a hypothetical retrospective simulation calculated by the underlying index publisher, us same methodology as is currently employed for calculating the underlying index based on historical data. A retrospective simulation means that no actual investment which allowed a tracking of the performance of th existed at any time during the period of the retrospective simulation. In addition, the Morgan Stanley Two Treasury Index and certain ETFs included in the Index Components existed for only a portion of period for index publisher calculates hypothetical retrospective values. For any period during which data for the Morg Stanley Two Year Treasury Index or one or more ETFs did not exist, the historical simulation is based on (value of the Morgan Stanley Two Year Treasury Index based on simulated historical performance and (ii) t of each such ETF's benchmark index less the relevant ETF's current expense ratio. The ETFs (and correspo inception dates) for which data have been used for all periods prior to the relevant inception date are: USM (October 20, 2011), DVY (November 7, 2003), HYG (April 11, 2007), AGG (September 26, 2003), EMB (19, 2007), TIP (December 5, 2003), PFF (March 30, 2007), GLD (November 18, 2004), USO (April 10, 20 (September 29, 2004) and UUP (February 20, 2007). Therefore, information regarding the underlying inde March 7, 2017 is hypothetical only and does not reflect actual historical performance. Investors should be a no actual investment which allowed a tracking of the performance of the underlying index was possible at a prior to March 7, 2017. Such data must be considered illustrative only.

You should not take the historical or hypothetical retrospective values of the underlying index as an indicat future performance.

Information as of market close on August 28, 2018:

Bloomberg Ticker Symbol:	MSUSMAPT
Current Index Value:	223.29

The following graph sets forth the hypothetical retrospective and historical daily closing values of the unde
index for the period from January 1, 2004 through August 28, 2018. The related table sets forth the hypothe
retrospective and historical high and low closing values, as well as end-of-quarter closing values, of the unc
index for each quarter from January 1, 2013 through August 28, 2018. The closing value of the index on Au
2018 was 223.29. The underlying index was established on March 7, 2017. The information prior to March
a hypothetical retrospective simulation calculated by the underlying index publisher and must be considered
illustrative only.

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Morgan Stanley MAP Trend Index Hypothetical Retrospective and Historical Performance

Daily Closing Values

January 1, 2004 to August 28, 2018

*The red vertical line indicates March 7, 2017, which is the date on which the index was established.

Morgan Stanley MAP Trend Index	**High**	**Low**	**Period End**
2013			
First Quarter	179.89	175.49	179.88
Second Quarter	185.30	178.11	179.74
Third Quarter	183.83	178.64	183.05
Fourth Quarter	187.77	181.83	187.28
2014			
First Quarter	193.89	186.62	191.80
Second Quarter	199.76	190.69	199.76
Third Quarter	201.97	196.45	198.27
Fourth Quarter	204.04	196.27	203.33
2015			
First Quarter	210.26	203.07	209.23
Second Quarter	211.32	204.98	205.38
Third Quarter	207.20	195.23	196.49
Fourth Quarter	201.26	196.34	197.35
2016			
First Quarter	200.51	191.80	200.51
Second Quarter	208.21	199.91	208.21
Third Quarter	212.26	208.03	211.47
Fourth Quarter	210.93	204.13	208.39
2017			
First Quarter	215.03	209.44	213.33
Second Quarter	219.77	213.33	217.82
Third Quarter	222.66	216.41	221.64

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Morgan Stanley MAP Trend Index	**High**	**Low**	**Period End**
Fourth Quarter	224.81	220.84	223.75
2018			
First Quarter	227.03	216.04	218.21
Second Quarter	220.19	216.12	218.55
Third Quarter (through August 28, 2018)	223.76	218.74	223.29

The underlying index was established on March 7, 2017. The information prior to March 7, 2017 is a hypothetical retrospective simulation calculated by the underlying index publisher and must be consi illustrative only.

Hypothetical Underlying Index Return

The following table shows the **hypothetical** return on the underlying index from January 1, 2004 to August Because the publication of the underlying index began on March 7, 2017, the return on the underlying inde below is retrospectively simulated. **No actual investment which allowed a tracking of the performance underlying index was possible at any time prior to March 7, 2017.** Because the Morgan Stanley Two Y Treasury Index and certain ETFs included in the Index Components existed for only a portion of the back-t period, substitute data have been used for portions of the simulation.

Index Returns[1]

	1/1/2004–8/28/2018	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Returns	5.39%	8.30%	3.10%	5.04%	3.19%	2.81%	5.13%	12.77%	6.51%	7.01%	7.32%	8.57%	-2.94

Data based on simulated returns from January 1, 2004 to March 7, 2017 and actual returns thereafter.

1 All returns except year-to-date 2018 returns are annualized.

2 Year-to-date 2018 returns are not annualized.

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Additional Information About the Notes

Please read this information in conjunction with the summary terms on the front cover of this document.

Additional Provisions:	
Denominations:	$1,000 and integral multiples thereof
Interest:	None
Underlying index publisher:	MS & Co.
Bull or bear notes:	Bull notes
Call right:	The notes are not subject to an issuer discretionary call right.
Market disruption event:	*The following provision supersedes in its entirety "Description of Equity-Linked Notes— Terms of the Notes—market disruption event" in the accompanying product supplement:*

"Market disruption event" means the occurrence or existence of any of the following eve respect to any ETF included in the underlying index, as determined by the calculation ag sole discretion:

(i) (a) the occurrence or existence of a suspension, absence or material limitation of tradi ETF on the primary market for the ETF for more than two hours of trading or during the hour period preceding the close of the principal trading session in such market; or

(b) a breakdown or failure in the price and trade reporting systems of the primary market ETF as a result of which the reported trading prices for the ETF during the last one-half l preceding the close of the principal trading session in such market are materially inaccur suspension, absence or material limitation of trading on the primary market for trading in or options contracts related to the ETF, if available, during the one-half hour period prec close of the principal trading session in the applicable market; or

(c) the suspension, material limitation or absence of trading on any major U.S. securities for trading in futures or options contracts related to, if applicable, the ETF underlying inc ETF for more than two hours of trading or during the one-half hour period preceding the the principal trading session on such market; and

(ii) a determination by the calculation agent in its sole discretion that any event describec (a), (b) or (c) above materially interfered with our ability or the ability of any of our affil unwind or adjust all or a material portion of the hedge position with respect to the notes.

For the purpose of determining whether a market disruption event exists at any time, if tr an ETF included in the underlying index is materially suspended or materially limited at then the relevant percentage contribution of that ETF to the value of the underlying index based on a comparison of (x) the portion of the value of the underlying index attributable ETF relative to (y) the overall value of the underlying index, in each case immediately be suspension or limitation.

For the purpose of determining whether a market disruption event has occurred: (1) a lim the hours or number of days of trading will not constitute a market disruption event if it r from an announced change in the regular business hours of the relevant exchange or mar decision to permanently discontinue trading in the ETF or in futures or options contract r the ETF underlying index or the ETF will not constitute a market disruption event, (3) a suspension of trading in futures or options contracts on the ETF underlying index or the I the primary securities market trading in such contracts by reason of (a) a price change ex limits set by such securities exchange or market, (b) an imbalance of orders relating to su contracts or (c) a disparity in bid and ask quotes relating to such contracts will constitute suspension, absence or material limitation of trading in futures or options contracts relate ETF underlying index or the ETF and (4) a "suspension, absence or material limitation o any relevant exchange or on the primary market on which futures or options contracts rel the ETF underlying index or the ETF are traded will not include any time when such sec market is itself closed for trading under ordinary circumstances.

The following provision supersedes in its entirety "Description of Equity-Linked Notes— Terms of the Notes—relevant exchange" in the accompanying product supplement:

Relevant exchange:

The primary exchange(s) or market(s) of trading for any ETF then-included in the underl index, or any successor index.

Postponement of determination date:

If a market disruption event with respect to the underlying index occurs on any schedule determination date, or if any scheduled determination date is not an index business day, t closing value for such day shall be determined on the immediately succeeding index busi on which no market disruption event shall have occurred with respect to the underlying i *provided* that the index closing value of the underlying index for any scheduled determin will not be determined on a date later than the fifth scheduled index business day after su scheduled determination date, and if such date is not an index business day or if there is a disruption event on such date, the calculation agent shall determine the

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index closing value of the underlying index on such date in accordance with the formu calculating the underlying index last in effect prior to the commencement of the marke disruption event (or prior to the non-index business day), without rebalancing or substi using the closing price (or, if trading in the relevant securities has been materially susp materially limited, its good faith estimate of the closing price that would have prevaile such suspension, limitation or non-Index business day) on such date of each ETF most constituting the underlying index.

Postponement of maturity date and early redemption dates: If any determination date is postponed due to a non-index business day or certain mark disruption events so that it falls less than two business days prior to the relevant schedu redemption date or maturity date, as applicable, the early redemption date or maturity c applicable, will be postponed to the second business day following that determination c postponed, and no adjustment will be made to any early redemption payment or the pa maturity made on such postponed date.

Discontinuance of the underlying index: *The following provision supersedes in its entirety "Description of Equity-Linked Notes—Discontinuance of Any Underlying Index or Basket Index; Alteration of Metho Calculation" in the accompanying product supplement:*

If the underlying index publisher discontinues publication of the underlying index and underlying index publisher or another entity publishes a successor or substitute index t Co., as the calculation agent, determines, in its sole discretion, to be comparable to the discontinued underlying index (such index being referred to herein as a "successor ind any subsequent index closing value will be determined by reference to the published va such successor index at the regular weekday close of trading on any index business day index closing value is to be determined, and, to the extent the index closing value of su successor index differs from the index closing value of the underlying index at the time substitution, proportionate adjustments will be made by the calculation agent to the ini value and redemption threshold levels.

Upon any selection by the calculation agent of a successor index, the calculation agent written notice thereof to be furnished to the trustee, to us and to The Depositary Trust New York, New York ("DTC"), as holder of such notes, within three business days of selection. We expect that such notice will be made available to you, as a beneficial own relevant notes, in accordance with the standard rules and procedures of DTC and its di indirect participants.

If the underlying index publisher discontinues publication of the underlying index and calculation agent determines, in its sole discretion, that no successor index is available,

the date of such determination, the calculation agent will determine, in good faith and i
commercially reasonable manner, an alternative payment amount, which will equal its
of the value, if any, of the investors' forgone opportunity to receive any subsequent pa
the notes, determined by reference to the calculation agent's pricing models, inputs, as
about future market conditions including, without limitation, the volatility of the MAP
Index and its components and current and expected interest rates. The alternative paym
amount, if any, will be paid at maturity.

Equity-linked notes:	All references to "equity-linked notes" or related terms in the accompanying product s for equity-linked notes shall be deemed to refer to jump notes with auto-callable featu read in conjunction with this document.
Minimum ticketing size:	$1,000 / 1 note
Trustee:	The Bank of New York Mellon
Calculation agent:	MS & Co.
Tax considerations:	In the opinion of our counsel, Davis Polk & Wardwell LLP, the notes should be treated as "contingent payment debt instruments" for U.S. federal income tax purposes, as described section of the accompanying product supplement called "United States Federal Taxation– Consequences to U.S. Holders." Under this treatment, if you are a U.S. taxable investor, y generally will be subject to annual income tax based on the "comparable yield" (as define accompanying product supplement) of the notes, even though no interest is payable on the addition, any gain recognized by U.S. taxable investors on the sale or exchange, or at mat the notes generally will be treated as ordinary income. Although it is not clear how the co yield should be determined for notes that may be automatically redeemed before maturity counsel has advised that it is reasonable to determine the comparable yield based on the st maturity date. We have determined that the "comparable yield" for the notes is a rate of 3. annum, compounded semi-annually. Based on the comparable yield set forth above, the "p payment schedule" for a note (assuming an issue price of $1,000) consists of a single proj amount equal to $1,314.2431 due at maturity. You should read the discussion under "Unit Federal Taxation" in the accompanying product supplement concerning the U.S. federal i consequences of an investment in the notes.

The following table states the amount of original issue discount ("OID") (without taking i
any adjustment to reflect the difference, if any, between the actual and the projected amou
contingent payment on a note) that will be deemed to have accrued with respect to a note
accrual period (assuming a day count convention of 30 days per month and 360 days per y
based upon the comparable yield set forth above.

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ACCRUAL PERIOD	OID DEEMED TO ACCRUE DURING ACCRUAL PERIOD (PER NOTE)	TOTAL OID DEEMED TO HAVE ACCRUE ORIGINAL ISSUE DATE (PER NOTE) AS O OF ACCRUAL PERIOD
Original Issue Date through December 31, 2018	$13.1203	$13.1203
January 1, 2019 through June 30, 2019	$19.9387	$33.0590
July 1, 2019 through December 31, 2019	$20.3311	$53.3901
January 1, 2020 through June 30, 2020	$20.7312	$74.1213
July 1, 2020 through December 31, 2020	$21.1392	$95.2605
January 1, 2021 through June 30, 2021	$21.5553	$116.8158
July 1, 2021 through December 31, 2021	$21.9795	$138.7953
January 1, 2022 through June 30, 2022	$22.4121	$161.2074
July 1, 2022 through December 31, 2022	$22.8531	$184.0605
January 1, 2023 through June 30, 2023	$23.3029	$207.3634
July 1, 2023 through December 31, 2023		
January 1, 2024 through June 30, 2024	$23.7615	$231.1249
	$24.2292	$255.3541
July 1, 2024 through December 31, 2024	$24.7060	$280.0601
January 1, 2025 through June 30, 2025	$25.1922	$305.2523
	$8.9908	$314.2431
July 1, 2025 through the Maturity Date		

The comparable yield and the projected payment schedule are not provided for any purpose other t determination of U.S. Holders' accruals of OID and adjustments thereto in respect of the notes for U income tax purposes, and we make no representation regarding the actual amount of the payment th made on a note.

If you are a non-U.S. investor, please also read the section of the accompanying product supplement called
States Federal Taxation—Tax Consequences to Non-U.S. Holders."

As discussed in the accompanying product supplement, Section 871(m) of the Internal Revenue Code of 1
amended (the "Code"), and Treasury regulations promulgated thereunder ("Section 871(m)") generally im
a lower applicable treaty rate) withholding tax on dividend equivalents paid or deemed paid to Non-U.S. H
with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities (ea
"Underlying Security"). Subject to certain exceptions, Section 871(m) generally applies to securities that s
replicate the economic performance of one or more Underlying Securities, as determined based on tests se
the applicable Treasury regulations (a "Specified Security"). However, pursuant to an Internal Revenue Se
notice, Section 871(m) will not apply to securities issued before January 1, 2019 that do not have a delta o
respect to any Underlying Security. Based on our determination that the notes do not have a delta of one w
to any Underlying Security, our counsel is of the opinion that the notes should not be Specified Securities
therefore, should not be subject to Section 871(m).

Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 87
complex and its application may depend on your particular circumstances, including whether you enter int
transactions with respect to an Underlying Security. **If withholding is required, we will not be required**
any additional amounts with respect to the amounts so withheld. You should consult your tax adviser
the potential application of Section 871(m) to the notes.

You should consult your tax adviser regarding all aspects of the U.S. federal income tax consequenc
investment in the notes, as well as any tax consequences arising under the laws of any state, local or
taxing jurisdiction. Moreover, neither this document nor the accompanying product supplement ad
the consequences to taxpayers subject to special tax

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accounting rules under Section 451(b) of the Code.

The discussion in the preceding paragraphs under "Tax considerations" and the dis contained in the section entitled "United States Federal Taxation" in the accompany supplement, insofar as they purport to describe provisions of U.S. federal income ta legal conclusions with respect thereto, constitute the full opinion of Davis Polk & W LLP regarding the material U.S. federal tax consequences of an investment in the n

The proceeds from the sale of the notes will be used by us for general corporate purposes receive, in aggregate, $1,000 per note issued, because, when we enter into hedging transa order to meet our obligations under the notes, our hedging counterparty will reimburse th the agent's commissions. The costs of the notes borne by you and described beginning on above comprise the agent's commissions and the cost of issuing, structuring and hedging

Use of proceeds and hedging:

On or prior to the pricing date, we hedged our anticipated exposure in connection with th entering into hedging transactions with our affiliates and/or third party dealers. We expec hedging counterparties to have taken positions in the component ETFs of the underlying in options contracts on the component ETFs. Such purchase activity could have increased of the underlying index on the pricing date, and, therefore, could have increased (i) the va above which the underlying index must close on the determination dates so that the notes redeemed prior to maturity for the early redemption payment and (ii) the value above wh underlying index must close on the final determination date, if the notes are not redeemed maturity, so that you would receive at maturity a payment that exceeds the stated princip of the notes. In addition, through our affiliates, we are likely to modify our hedge positio throughout the term of the notes, including on the determination date, by purchasing and component ETFs or positions in any other available securities or instruments that we may use in connection with such hedging activities. As a result, these entities may be unwindi adjusting hedge positions during the term of the notes, and the hedging strategy may invo greater and more frequent dynamic adjustments to the hedge as the determination date ap We cannot give any assurance that our hedging activities will not affect the value of the u index, and, therefore, adversely affect the value of the notes or the payment you will rece maturity. For further information on our use of proceeds and hedging, see "Use of Procee Hedging" in the accompanying product supplement.

Benefit plan investor considerations:

Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to Title Employee Retirement Income Security Act of 1974, as amended ("ERISA") (a "Plan"), s the fiduciary standards of ERISA in the context of the Plan's particular circumstances be authorizing an investment in the notes. Accordingly, among other factors, the fiduciary s consider whether the investment would satisfy the prudence and diversification requirem ERISA and would be consistent with the documents and instruments governing the Plan.

In addition, we and certain of our affiliates, including MS & Co., may each be considered interest” within the meaning of ERISA, or a “disqualified person” within the meaning of Revenue Code of 1986, as amended (the “Code”), with respect to many Plans, as well as individual retirement accounts and Keogh plans (such accounts and plans, together with plans, accounts and arrangements subject to Section 4975 of the Code, also “Plans”). ERI 406 and Code Section 4975 generally prohibit transactions between Plans and parties in i disqualified persons. Prohibited transactions within the meaning of ERISA or the Code w likely arise, for example, if the notes are acquired by or with the assets of a Plan with resp which MS & Co. or any of its affiliates is a service provider or other party in interest, unl notes are acquired pursuant to an exemption from the “prohibited transaction” rules. A vi these “prohibited transaction” rules could result in an excise tax or other liabilities under and/or Section 4975 of the Code for those persons, unless exemptive relief is available un applicable statutory or administrative exemption.

The U.S. Department of Labor has issued five prohibited transaction class exemptions (“I that may provide exemptive relief for direct or indirect prohibited transactions resulting f purchase or holding of the notes. Those class exemptions are PTCE 96-23 (for certain tra determined by in-house asset managers), PTCE 95-60 (for certain transactions involving company general accounts), PTCE 91-38 (for certain transactions involving bank collecti investment funds), PTCE 90-1 (for certain transactions involving insurance company sep accounts) and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers). In addition, ERISA Section 408(b)(17) and Code Section 4975(d)(20) provide an exemption for the purchase and sale of securities and the related l transactions, provided that neither the issuer of the securities nor any of its affiliates has c exercises any discretionary authority or control or renders any investment advice with res the assets of the Plan involved in the transaction and provided further that the Plan pays n and receives no less, than “adequate consideration” in connection with the transaction (th “service provider” exemption). There can be no assurance that any of these class or statut exemptions will be available with respect to transactions involving the notes.

Because we may be considered a party in interest with respect to many Plans, the notes m purchased, held or disposed of by any Plan, any entity whose underlying assets include “ by reason of any Plan’s investment in the entity (a “Plan Asset Entity”) or any person inv assets” of any Plan, unless such purchase, holding or disposition is eligible for exemptive including relief

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available under PTCEs 96-23, 95-60, 91-38, 90-1, 84-14 or the service provider exemption or such purcha holding or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on b Plan, transferee or holder of the notes will be deemed to have represented, in its corporate and its fiduciary by its purchase and holding of the notes that either (a) it is not a Plan or a Plan Asset Entity and is not purc such notes on behalf of or with "plan assets" of any Plan or with any assets of a governmental, non-U.S. o that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of S of ERISA or Section 4975 of the Code ("Similar Law") or (b) its purchase, holding and disposition of thes not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 497 Code or violate any Similar Law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non- prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing on behalf of or with "plan assets" of any Plan consult with their counsel regarding the availability of exem

Each purchaser and holder of the notes has exclusive responsibility for ensuring that its purchase, holding disposition of the notes do not violate the prohibited transaction rules of ERISA or the Code or any Simila The sale of any notes to any Plan or plan subject to Similar Law is in no respect a representation by us or a affiliates or representatives that such an investment meets all relevant legal requirements with respect to in by plans generally or any particular plan, or that such an investment is appropriate for plans generally or a particular plan. In this regard, neither this discussion nor anything provided in this document is or is intend investment advice directed at any potential Plan purchaser or at Plan purchasers generally and such purcha these notes should consult and rely on their own counsel and advisers as to whether an investment in these suitable.

However, individual retirement accounts, individual retirement annuities and Keogh plans, as well as empl benefit plans that permit participants to direct the investment of their accounts, will not be permitted to pu hold the notes if the account, plan or annuity is for the benefit of an employee of Morgan Stanley or Morg Wealth Management or a family member and the employee receives any compensation (such as, for exam addition to bonus) based on the purchase of the notes by the account, plan or annuity.

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Additional considerations:	Client accounts over which Morgan Stanley, Morgan Stanley Wealth Mana or any of their respective subsidiaries have investment discretion are not pe purchase the notes, either directly or indirectly. Selected dealers, which may include our affiliates, and their financial advis collectively receive from the agent a fixed sales commission of $42.50 for they sell; provided that dealers selling to investors purchasing the note in fe advisory accounts will receive a sales commission of $12.50 per note.
Supplemental information regarding plan of distribution; conflicts of interest:	MS & Co. is an affiliate of MSFL and a wholly owned subsidiary of Morga Stanley, and it and other affiliates of ours expect to make a profit by selling structuring and, when applicable, hedging the notes.
	MS & Co. will conduct this offering in compliance with the requirements o Rule 5121 of the Financial Industry Regulatory Authority, Inc., which is co referred to as FINRA, regarding a FINRA member firm's distribution of th of an affiliate and related conflicts of interest. MS & Co. or any of our othe may not make sales in this offering to any discretionary account. See "Plan Distribution (Conflicts of Interest)" and "Use of Proceeds and Hedging" in accompanying product supplement.
Validity of the notes:	In the opinion of Davis Polk & Wardwell LLP, as special counsel to MSFL Morgan Stanley, when the notes offered by this pricing supplement have be executed and issued by MSFL, authenticated by the trustee pursuant to the Senior Debt Indenture (as defined in the accompanying prospectus) and de against payment as contemplated herein, such notes will be valid and bindi obligations of MSFL and the related guarantee will be a valid and binding of Morgan Stanley, enforceable in accordance with their terms, subject to a bankruptcy, insolvency and similar laws affecting creditors' rights generall concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the l faith), provided that such counsel expresses no opinion as to (i) the effect o fraudulent conveyance, fraudulent transfer or similar provision of applicab the conclusions expressed above and (ii) any provision of the MSFL Senio Indenture that purports to avoid the effect of fraudulent conveyance, fraudu transfer or similar provision of applicable law by limiting the amount of M Stanley's obligation under the related guarantee. This opinion is given as o hereof and is limited to the laws of the State of New York, the General Co Law of the State of Delaware and the Delaware Limited Liability Company addition, this opinion is subject to customary assumptions about the trustee authorization, execution and delivery of the MSFL Senior Debt Indenture a

authentication of the notes and the validity, binding nature and enforceabili
MSFL Senior Debt Indenture with respect to the trustee, all as stated in the
such counsel dated November 16, 2017, which is Exhibit 5-a to the Registr
Statement on Form S-3 filed by Morgan Stanley on November 16, 2017.

Contact:	Morgan Stanley clients may contact their local Morgan Stanley branch offi principal executive offices at 1585 Broadway, New York, New York 1003 (telephone number (866) 477-4776). All other clients may contact their lo brokerage representative. Third-party distributors may contact Morgan Sta Structured Investment Sales at (800) 233-1087.
Where you can find more information:	Morgan Stanley and MSFL have filed a registration statement (including a prospectus, as supplemented by the product supplement for Equity-Linked with the Securities and Exchange Commission, or SEC, for the offering to communication relates. You should read the prospectus in that registration the product supplement for Equity-Linked Notes and any other documents this offering that Morgan Stanley and MSFL have filed with the SEC for m complete information about Morgan Stanley, MSFL and this offering. You these documents without cost by visiting EDGAR on the SEC web site at.www.sec.gov. Alternatively, Morgan Stanley, MSFL, any underwriter o dealer participating in the offering will arrange to send you the prospectus product supplement for Equity-Linked Notes if you so request by calling to 800-584-6837. You may access these documents on the SEC web site at.www.sec.gov as f Product Supplement for Equity-Linked Notes dated November 16, 2017 Prospectus dated November 16, 2017 Terms used but not defined in this document are defined in the product sup for Equity-Linked Notes or in the prospectus.

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Annex A—Morgan Stanley MAP Trend Index

Overview

The Morgan Stanley MAP Trend Index (the "**Index**") has been developed by and is calculated, published a maintained by Morgan Stanley & Co. LLC. MAP stands for "Multi-Asset Portfolio." The Index was establi Morgan Stanley on March 7, 2017 and employs a rules-based quantitative strategy (the "**Index Methodolo** combines a risk-weighted approach to portfolio construction with a momentum-based, or trend-following, a allocation methodology to construct a notional portfolio. In addition, the strategy imposes an overall volatility-targeting feature upon the resulting portfolio. The goal of the Index is to maximize returns for a g of risk based upon recent trends in the underlying assets. The investment assumption underlying the allocat strategy is two-fold: that historical volatility of the underlying assets can be used to risk-weight a portfolio, past trends are likely to continue to be a good indicator of the future performance of that portfolio. The Inde therefore seeks to capture returns by taking risk-weighted positions indicated by such trends. As the portfol risk-weighted based upon a pre-set allocation as modified by recent volatility, increased volatility in an und asset will result in reduced exposure to that asset, potentially at a time when that asset then increases in valu same time, lower volatility will result in higher exposure, potentially at a time when the asset starts to decli value. In addition, as a trend-following, momentum-based index, the Index will tend to perform well when the relevant ETFs are steadily trending either up or down. On the other hand, the Index will likely perform when prices on the relevant ETFs do not move in a consistent manner, and, in particular, when they experie reversals, in which case the Index will likely allocate to ETFs that trended upward, but that are now declini addition, sharp, correlated reversals in the equity markets as a whole will also have an adverse effect on the the Index, as any diversification benefits inherent in investing in a variety of ETFs will be lost.

The components of the Index consist of (i) 20 U.S.-listed exchange traded funds ("**ETFs**"), representing U. non-U.S. equities, fixed income securities, commodities and real estate, and (ii) the Morgan Stanley Two Y Treasury Index (collectively, the "**Index Components**"). The notional portfolio constructed by the Index M of Index Components is referred to as the "**Asset Portfolio**." The Asset Portfolio will consist of long-only p each Index Component, and each Index Component except for the Morgan Stanley Two Year Treasury Ind subject to a maximum exposure cap. The actual number of ETFs represented in the Asset Portfolio will be determined according to the Index Methodology but will likely be less than 20 at any one time and, if all th are trending down, could be only the Morgan Stanley Two Year Treasury Index. The targeted volatility for is 5% (the "**Volatility Target**").

The Index is calculated on an excess return basis, and therefore the level is determined by the weighted retu
Asset Portfolio reduced by the return on an equivalent cash investment receiving the 3-month LIBOR. The
performance is further reduced by a servicing cost of 0.85% per annum calculated on a daily basis.

Calculation of Pre-Signal Base Allocation for each ETF

The Index is rebalanced each Strategy Business Day (the "**Daily Rebalancing**"). Upon each Daily Rebalan
Index, the Index Methodology uses the pre-assigned Risk Budget assigned to each ETF which remains stati
throughout the life of the Index and is set forth in the table below. Based upon those pre-set Risk Budgets, t
Methodology determines the base allocation of each ETF in the Asset Portfolio by analyzing the volatility f
ETF and the historical correlation among the components. The base allocation of ETFs will be proportional
ETFs' Risk Budget and the inverse of each ETF's volatility and scaled based upon the volatility of the othe
100% exposure.[1] Assuming that two ETFs have the same Risk

[1] Look-back period for volatility for the pre-signal allocation is approximately one year.

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Budget, this initial weighting scheme allocates more to less volatile assets and less to more volatile assets.[2] Risk Budget is used to determine proportions for the pre-signal base allocations, those pre-signal base alloc be higher or lower than the original Risk Budget; however, after the entirety of the Index calculation is com ETF's exposure will exceed its maximum exposure cap as listed in the table below.

Determining the Trend Signal for each ETF

The Index Methodology then calculates a signal based on the upward or downward trend of each ETF (the **Signal**"). The Index calculates each Trend Signal by observing two moving averages, one short-term and o long-term, over different look-back periods for each respective ETF.[3] These moving averages are calculate formula that considers the entirety of the look-back period but gives more weight to the recent data points t data points further in the past. For some of the less liquid ETFs, a signal-smoothing moving average is inco that creates a weighted average of the Trend Signal using the prior two or three days of signal data in order avoid unrepresentative signals due to that relative illiquidity.[4] A Trend Signal that converges toward one in upward trend and a Trend Signal that converges toward zero indicates a downward trend.

The Index compares each ETF's short-term and long-term moving averages against its spot horizon to dete Trend Signal. The Trend Signal will be 0 if the spot horizon is below both the short-term and long-term mo averages, 0.5 if the spot horizon is between the short-term and long-term moving averages or 1 if the spot h above the short-term and long-term moving averages. An ETF's spot horizon value is not always its most r and, in the equity and alternatives asset classes, the date for determining the spot horizon is a date 4 Strateg Business Days before the short-term horizon date, which is typically the Strategy Business Day prior to the Rebalancing Date. The result of this is that the Index, in the equity and alternatives asset classes, will alloca exposure to ETFs that are trending down in the short-term and less to ETFs that are trending up in the short an effort to capitalize on possible countertrends or overreactions in the market. However, if a short-term do trend persists and the ETF steadily declines, the Trend Signal in these asset classes will remain at 1 and the Index will be fully exposed to the decline. The Trend Signal will remain at 1 until the ETF begins trending short-term horizon exceeds the spot horizon or continues declining such that the spot horizon is below the l horizon. Even if the spot horizon falls below the long-term horizon, the Trend Signal will be 0.5 and the In not fully divest its position until the spot horizon of the ETF is down compared to both the long-term horiz short-term horizon.

Scaling of Allocation of ETFs According to Trend Signal

Once the Trend Signal is calculated for each ETF, the previously determined base allocations are scaled by
Signal by allocating more upward-trending securities to the Asset Portfolio subject to each ETFs'

[2] Volatility is a market standard statistical measure of the magnitude and frequency of price changes of a fi
asset over a period of time, used to express the riskiness of the asset. Note, however, that volatility does no
the direction of the asset's price movement.

[3] The look-back period for each moving average is asset-class dependent. Equity ETFs have a short term pe
day, a long term period of 200 days and a spot horizon of 5 days. Fixed Income ETFs have a short term pe
days, a long term period of 20 days and a spot horizon of 1 day. Alternative ETFs have a short term period
a long term period of 200 days and a spot horizon of 5 days.

[4] As classified in the table below, Other Equity ETFs have a signal smoothing period of 2 days. Core Fixed
ETFs have a signal smoothing period of 2 days while Other Fixed Income ETFs have a signal smoothing pe
days.

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maximum exposure cap as outlined in the table below. The magnitude of each position taken by the Index f the Trend Signal adjustment is then scaled to the Volatility Target based on a pro-rata volatility-scaling that achieve a balanced level of volatility in the Index's exposure to each of the ETFs. The volatility of the Inde calculated by estimating the volatility of each ETF adjusted for correlations over a period of approximately days. The higher volatility of the two time periods is used to scale the Index's exposure to the ETFs. ETFs Trend Signal of 0 on a Rebalancing Day will not be allocated any exposure and therefore will not be a part Asset Portfolio on that day. Any unused exposure is allocated to the Morgan Stanley Two Year Treasury In Because the Index is limited to 125% leverage it may not be possible to achieve the Volatility Target of 5% periods of very low volatility. Moreover, the volatility of the Index may exceed the 5% Volatility Target in extreme volatility due to trading limits on the ETFs. The daily trading limit for each ETF is one-third of the maximum exposure cap. Once the composition of the Asset Portfolio is determined, the Index value is equi the sum of each Index Component's market price less the 3-month LIBOR excess return cost and the 0.85% cost.

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Morgan Stanley MAP Trend Index – Summary

The procedure for determining the composition of the Asset Portfolio is summarized in the graphic and bul
below:

- Base allocations depend on each ETF's liquidity and are proportional to the Risk Budget and the inverse of relative historical realized volatility scaled to 100%.

- All things being equal, this weighting scheme allocates more to less volatile assets and less to more volatile

- For each ETF, compute one short-term and one long-term moving average.

- Compare the short-term and long-term moving averages versus the ETF spot price, a Trend Signal of 100% an upward trend and a Trend Signal 0% indicates a downward trend.[5] If applicable, the Trend Signal is smo over a few days for the less liquid ETFs.

- Scale the base allocations by the Trend Signal for each ETF.

- The maximum exposure caps on each Rebalancing Date for each Index Component are specified in the tab

- Estimate the volatility of the portfolio and scale the allocations to target a 5% volatility. Because the ETFs subject to a maximum exposure cap and the Index is limited to 125% leverage, it may not be possible to ac Volatility Target of 5% during periods of very low volatility.

- Allocate any unused exposure into Morgan Stanley Two Year Treasury Index.

-

The level of the Index is calculated on an excess return basis and is determined by the weighted return of th
Portfolio *reduced* by the return on an equivalent cash investment receiving the 3-month LIBOR and a servi
of 0.85% per annum.

[5] Note that because the spot horizon period is longer than the short-term horizon period for ETFs in the equ
alternative asset classes of the index, an actual upward trend in an ETF may result in a Trend Signal less tha
therefore the Index may divest itself of these ETFs despite recent positive movement.

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Index Components

The potential Index Components included in the Index and the maximum asset weightings on each Rebalan
for each Index Component are specified in the table below.

Equities	**Ticker**	**Maximum Exposure Cap**	**Risk Budget***
Core			
SPDR S&P 500	SPY	25%	11%
PowerShares QQQ ETF	QQQ	25%	11%
iShares Russell 2000	IWM	25%	11%
iShares MSCI EAFE	EFA	5%	2%
iShares MSCI Emerging Markets	EEM	5%	2%
Others			
iShares Edge MSCI Minimum Volatility USA	USMV	5%	2%
iShares Nasdaq Biotechnology	IBB	5%	2%
iShares Select Dividend	DVY	3%	1%
Fixed Income			
Core			
iShares 20+ Year Treasury Bond	TLT	25%	11%
iShares 7-10 Year Treasury Bond	IEF	25%	11%
iShares iBoxx High Yield Corporate Bond	HYG	25%	11%
iShares iBoxx Investment Grade Corporate Bond	LQD	5%	2%
iShares Core US Aggregate Bond	AGG	5%	2%
Others			
iShares TIPS Bond	TIP	5%	2%
iShares JPMorgan USD Emerging Markets Bond	EMB	5%	2%
iShares US Preferred Stock	PFF	3%	1%
Alternatives			
SPDR Gold Shares	GLD	10%	4%
United States Oil	USO	10%	4%
Vanguard REIT ETF	VNQ	10%	4%
The PowerShares DB US Dollar Index Bullish Fund	UUP	10%	4%
Risk-Off			
Morgan Stanley Two Year Treasury Index	N/A	100%	N/A

*Rounded to the nearest percentage

The ETFs make periodic filings with the Securities and Exchange Commission ("SEC"). Information provi
filed with the SEC by each ETF pursuant to the securities laws can be located through the SEC's website at
www.sec.gov. In addition, information may be obtained from other sources including, but not limited to, pr
releases, newspaper articles and other publicly disseminated documents. **Neither the issuer nor the agent
any representation that such publicly available documents or any other publicly available informatio
regarding the ETFs is accurate or complete.**

The Morgan Stanley Two Year Treasury Index has been developed by Morgan Stanley & Co. LLC (the "S
and will be calculated and rebalanced by Morgan Stanley & Co. LLC (acting in such capacity as the "Calcu
Agent"). The Morgan Stanley Two Year Treasury Index is a rules-based index that seeks to capture the yi
US Treasury notes with a maturity of between two years and two years and three months by notionally purc
futures contracts on US Treasury notes. The Morgan Stanley Two Year Treasury Index is published on Bl
under the ticker symbol MSUST2TR <Index>.

The Morgan Stanley Two Year Treasury Index, including its name, methodology and levels (the "Index Inf
is the exclusive property of the Sponsor. Unless specifically agreed by the Sponsor, no third party is author

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Adjustments, Disruptions and Errors

Definitions

"**Rules**" means the description produced by Morgan Stanley that provides an overview of the methodology
Strategy.

"**Strategy**" means the Morgan Stanley MAP Trend Strategy.

"**Strategy Business Day**" means a day that is not a public holiday in the New York Stock Exchange calend
Chicago Board of Trade calendar.

"**Strategy Calculation Agent**" is Morgan Stanley & Co. LLC.

"**Strategy Level**" means the calculation of the level of the Strategy.

"**Strategy Live Date**" is March 7, 2017

"**Strategy Sponsor**" is Morgan Stanley & Co. International plc.

Overview

The Strategy is calculated on the basis of algorithmic formulas and therefore no discretion can be exercised
Strategy Sponsor or the Strategy Calculation Agent in the calculation of the Strategy. However, on occasion
may be situations requiring adjustments to the Strategy that are outside the scheduled adjustments and reba
Such adjustments might be made by Strategy Sponsor or the Strategy Calculation Agent by having recourse
discretionary decisions. Any discretion will be used in a commercially reasonable manner and exclusively i
ensure that the Strategy continues to reflect, as closely as possible, the value of the Strategy components in
determination of the Strategy Sponsor.

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Adjustment Events

The Strategy Calculation Agent will determine whether a circumstance relating to any Index Component ha dilutive, concentrative or other effect on the theoretical value of such Index Component and, if so, will (1) r corresponding adjustment, if any, to the Units or closing prices for such Index Component and/or any of the provisions hereof as the Strategy Calculation Agent determines appropriate to account for that dilutive, con or other effect; and (2) determine the effective date of that adjustment. As a result of the foregoing adjustme total number of Index Components may, on a given Strategy Business Day, increase or decrease.

Disruption Events

Each of the following is a "**Disruption Event**":

- A **Material Change in the Index Components' Methodology** occurs if the Strategy Sponsor determines has been a material change to the Index Components or other related indices and including hours of contin market trading and publication of bid and ask prices or the de-listing of any of the Index Components;

- An **Underlying Strategy Disruption** occurs if any dependencies needed to calculate the Trend Signal are calculated and announced by the Strategy Sponsor (regardless of whether the dependencies are calculated successor sponsor or not); (ii) replaced by a successor Strategy using the same or substantially the same methodology; or (iii) cancelled permanently;

- A **Termination of Data License** occurs if the Strategy Sponsor determines there has been a termination, r or suspension of any third-party license agreement or permission pursuant to which data are supplied to co calculate the Strategy

- A **Price Source Disruption** occurs if the Strategy Sponsor or the Strategy Calculation Agent determines th the source data required to calculate the Strategy are not available. This may include the published level of or data provided by a third party vendor. A Price Source Disruption may also include any permanent cance prolonged suspension of any Index Component.

- A **Change in Law** occurs if there has been a change in applicable law or regulation that prevents the Strate Sponsor and/or the Strategy Calculation Agent from calculating, publishing or hedging the Strategy.

- A **Hedging Disruption** occurs if the Strategy Sponsor determines that Morgan Stanley or any of its affilia be unable after using commercially reasonable efforts to:

  o acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transactions or instruments necessary to hedge its position in relation to any relevant transactions relating to or calculated by referenc Strategy; or

  o realize, recover or remit the proceeds of any such transactions or instruments;

- A **Force Majeure Event** occurs if the Strategy Sponsor determines that an event or circumstance has occu is beyond the reasonable control of the Strategy Sponsor and, as a result of which, the Strategy Sponsor or Strategy Calculation Agent is unable to calculate, publish or take any other necessary action in relation to t Strategy. Such event or circumstance may include (without limitation) a systems failure, fire, building eva natural or man-made disaster, act of state, armed conflict, act of terrorism, riot or labor disruption.

Potential Actions

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In the event that the Strategy Sponsor determines that a Disruption Event has occurred, the Strategy Sponso
its discretion:

- substitute the relevant ETF with a replacement instrument, provided that such replacement is similarly rep
of the existing Index Component;
- make such determinations or adjustments to the terms of the Strategy Methodology or the Index Compone
deems necessary including sourcing data from alternative providers;
- defer, or direct the Strategy Calculation Agent to defer, the availability of the Strategy until the next Strate
Business Day on which there is no Disruption Event;
- reallocate all or a portion of the Strategy exposure to cash or cash equivalents; or
- instruct the Strategy Calculation Agent to cease to calculate and make available the Strategy permane

Index Component Adjustments

Any adjustments required for Index Components will be made in accordance with the standard exchange
methodology. Examples of adjustments include change of units, close price determination or change in exp
schedule or first delivery dates.

Increased Costs

If at any time following the Strategy Live Date, due to the adoption of or any change in any applicable law
regulation or any event outside of its control, the Strategy Sponsor determines in good faith that a party wou
an increased cost in effecting transactions in the Index Components to reflect the notional exposure to the S
performance, the Strategy Sponsor retains the right to make any adjustments to the strategy methodology so
Strategy performance takes account of such increased costs.

Adjustment Procedures, Notification and Consultation Process

If any modification or adjustment is made to the calculation of the Strategy under the Rules, the Strategy Sp will make such modifications or adjustments based on market conditions and other relevant factors, as in th judgment of the Strategy Sponsor, are necessary to ensure that the Strategy continues to reflect, as closely a possible, the underlying economic interest it is designed to represent.

Wherever practicable, any adjustments to the calculation of the Strategy, other than a pre-determined rebala will be announced to the relevant interested parties or investors. Such announcement will be made in a time and, when reasonably possible, prior to the date in which the changes are due to become effective.

If the Strategy Sponsor determines in its discretion that a consultation with the relevant interested parties or is appropriate, it will inform them of the procedures applicable to the consultation.

Errors

The Strategy Sponsor reserves the right to make adjustments to the Strategy Level to correct any erroneous calculation or publication of the Strategy Level. The Strategy Sponsor will determine whether such error requires a change in the composition or calculation of the Strategy and, if so, the procedures outlined above apply.