THE VECTOR GROUP *at* MORGAN STANLEY

Vec·tor (VEK-ter) n. magnitude and direction

—Miriam Webster Dictionary

PORTFOLIO MANAGEMENT TEAM:

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Senior Portfolio Management Director
Family Wealth Advisor
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Vector Taxable Bond Strategies

Investment Objective

Vector Taxable Bond portfolios are structured for each individual client with an objective to provide income and low volatility. The portfolios are suitable for investors who are interested in a steady income stream and a lower correlation to equities. Typically, the portfolio will be fully invested with a diverse menu of bonds from different sectors of the economy and should be considered a core fixed income strategy.

Investment Process

The Vector Group uses numerous Information Sources, including third party, independent research providers. Both top -down and bottom- up approaches are employed. Security selection is paramount in the strategy. Factors such as sector overweights, revenue trends, leverage ratios, predictable cash flows and interest coverage are considered when buying corporate bonds. Particular attention is paid to potential upgrade candidates, disparity analysis and short-term out of favor situations.

Because of the current challenges of a fatigued, slow footed environment, yield curve positioning and duration management play a significant role. Floating rate bonds are an anchor in most portfolios. Coupon, call date, maturity and general bond structure are an important ingredient of portfolio construction. Zero coupon bonds are often paired with high coupon securities to achieve maximum return. Taxable, municipal, mortgage-backed and foreign bonds/sectors are often tactically utilized.

Portfolio Characteristics

Weighted Average Duration	3.5 years
Weighted Average First Optional Call	4.0 years
Weighted Average Maturity	4.5 years
Weighted Average Coupon	3.7%
Weighted Average Moody/S&P Rating	A2/A

Sector Breakdown

Taxable Municipals	25%
Financials	12%
Industrials	13%
Information Technology	17%
Healthcare	11%
Energy	2%
Consumer	15%
Telecommunication	2%
Other	3%

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Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

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