

The Merchant Securities FTSE – 100 “Hindsight” II Note

Our first FTSE-100 Hindsight Note is now fully subscribed; however, as a result of exceptional investor demand we are launching the FTSE-100 Hindsight II Note, with the following features.

- Investors should enjoy an enhanced return from any growth in the FTSE-100 index, with protection to a large extent against a prolonged downturn.
- The first FTSE-100 Hindsight Note has outperformed the index to date by some margin. The chart below shows this relative performance from launch in July 08 when the index was 5,400 but due to the unique “hindsight” feature it has been able to rebase the index at 3,715 from which future growth will be measured. The first FTSE-100 Hindsight Note has two remaining observation dates (10th May & June 2009).
- Due to the success of the “hindsight” feature we are offering investors the opportunity to benefit from a further 12 observation dates through the launch of the FTSE-100 Hindsight II Note.

The features of the new FTSE-100 Hindsight II Note:-

- The “hindsight” feature which means the growth at maturity is measured from the lowest of 12 observations on the close of the 1st of the month in the first year.
- Leveraged participation of 1.4 times the growth of the index up to the cap, so an investment of £1,000 will return a maximum of £1,700 (£1,000 capital plus £700 capital growth), which is a return of 70% for a growth of 50% in the index.
- 90% capital protection, so the minimum return is £900 for every £1,000 invested
- Morgan Stanley & Co. International Plc will, subject to market conditions, endeavour to provide a secondary market in the Note to enable investors to buy or sell the Note prior to maturity.
- If the index increases by 50% or more from the strike level before maturity, we would anticipate investors being able to sell the Note back to the issuer, subject to the issuer providing the secondary market, at or close to the maximum return of £1,700 (illustrated in the table on page 3).

Please liaise with your usual Merchant Securities contact to subscribe at the initial launch offering of 100 pence per unit, which is targeted for the 1st May 2009. Any subsequent purchases will be subject to market fluctuations.

Note: Past performance is not a reliable indicator of future results.

TERMS	
Objective	Capital Growth & Capital Protection
Underlying	FTSE - 100
ISIN	XS0426968201
Offer Price	100p
Nominal Value	100p
Coupon	Nil
Denomination	£ sterling
Minimum investment	£1,000
Secondary market size	£1,000
Initial valuation date	1 st May 2009
Note issue date	15 th May 2009
Maturity date	29 th May 2015
Term	6 Years
Index initial valuation	Lowest of 12 monthly observations
Guarantor	Morgan Stanley
Issuer	Morgan Stanley (Jersey) Limited

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Authorised and Regulated by the
Financial Services Authority

Investment objective

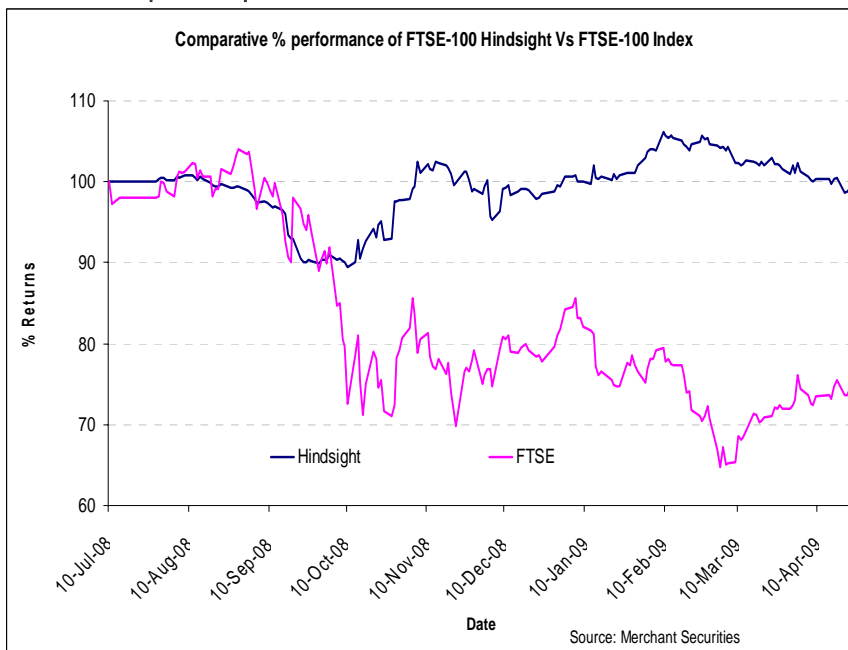
The Merchant Securities FTSE-100 “Hindsight” II Note offers investors leveraged exposure to growth in the FTSE-100 index, while potentially benefiting from any further falls in the index over the next 12 months.

The hindsight aspect is particularly valuable in the context of the current volatile markets as it significantly reduces the risk of entry timing of the investment. This has been demonstrated in the performance to date of the first issue launched on the 10th July 2008, as detailed below.

The objective is to generate enhanced capital growth on the money invested in line with any growth in the FTSE-100 index, with 90 per cent protection of capital in the event the index falls in value at maturity. In the interim period you should be able to buy or sell the Note in the secondary market.

Chart 1 below shows the relative performance of the first Merchant Securities FTSE-100 Hindsight Note against the FTSE-100 index from the launch date of the 10th July 2008.

Chart 1: Comparative performance



The structure

The Merchant Securities FTSE-100 Hindsight II Note is based on warrants and preference shares issued by Morgan Stanley (Jersey) limited, which are linked to the FTSE 100 index. The net effect to the investor is that the initial investment is protected up to 90% with leveraged upside potential of 170%. This is calculated by multiplying the cap of 50% by the leverage of 140% (1.4) giving a total potential growth of 170%.

The product reduces the risk of investment timing through the “hindsight” facility, as the returns at maturity will be measured from the lowest initial observation point in the first year of the contract. The initial observation

point is the lowest index closing price of 12 observations on the 1st, or if the market is closed on the first closing price thereafter, of the month from May 2009 through to May 2010, rather than simply taking the initial index level at the launch date of the product. If it were based on the FTSE-100 levels year-to-date, the product would have taken its initial index level on the first close price after the 1st of April 2009, when the FTSE-100 had fallen to 3,955.60.

The closing level of the index is taken as the average closing price on the twenty eighth day of the month over each of thirteen calendar months prior to expiration of the product. This method provides further benefit to the investor as it reduces the impact (and risk) of a market dip close to the maturity date.

If the FTSE-100 decreases in value over the final thirteen months of the product life, this averaging will give the investor a higher final index level than would be achieved by using the expiration date as the reference point. This also has the effect of limiting growth if the market is rising during the final thirteen months.

Table 1: Total return on equity

Total redemption at maturity from £1,000 invested			
Final index level as a % of initial index level	Capital return at maturity	Growth return at maturity	Total return at maturity
40%	£900	-	£900
60%	£900	-	£900
80%	£900	-	£900
95%	£900	£50	£950
100%	£1,000	-	£1,000
105%	£1,000	£70	£1,070
120%	£1,000	£280	£1,280
140%	£1,000	£560	£1,560
159%	£1,000	£700	£1,700
180%	£1,000	£700	£1,700

Source: Merchant Securities

At maturity, the zero-coupon bond will have appreciated in value to 100% of nominal capital. The warrant will then have a value of 140% of the upside performance of the index, capped at 50% above the initial index level. If the index has appreciated 20%, the growth return is 28%. This, together with the 100% capital protection, will then give a final redemption value of 128% (100% + 28%).

Should the index have appreciated over 50% of the initial index level the total return remains at about 170% of the original investment (upside capped at 50% with participation at 1.4 times and 100% of capital returned).

In the case where the final index level falls below that of the entry level, the investor is still protected to a minimum of 90% par value at maturity. If the final index value is between 90% and 100% of the initial index value, the investor's capital is reduced pro-rata to the fall in the index. This means that if the final index value was at 99% of its initial valuation point, the investor would receive £990 for each £1,000 invested.

Trading the Merchant Securities Hindsight II Note

Morgan Stanley & Co. International Plc will endeavour to provide a secondary market in the Note so that the investment can be traded (bought or sold) at any point prior to maturity, although in particular market conditions it may not be possible for the issuer to make a market or if so they may widen the bid/ offer spread.

If you wish to trade this Note you should speak to your financial adviser or your usual Merchant Securities' contact.

At Maturity

If the investor does not sell the Note in the secondary market before maturity the warrant will be converted into a preference share at a fixed value in accordance with the calculations and illustrated in the table on page 3. The purpose of this process is to create a chargeable event which we believe is subject to capital gains tax, as will be the case if you sell the Note in the secondary market before maturity.

You should consult your tax and accounting advisers to the extent you deem necessary.

Risk Factors

A number of risks are present and are detailed below, including issuer risk and the ability of the issuer to repay the nominal value at maturity.

General risks

The value of any securities or financial instruments mentioned in this financial promotion can fall as well as rise and therefore, upon withdrawal, you may receive back less than the full amount invested.

Transactions including those involving options and other derivative instruments can give rise to substantial risk and are not suitable for all investors.

The value of units in collective investment schemes that use derivatives such as options and futures may, under certain circumstances, be more volatile than non-derivative schemes and therefore, upon withdrawal, you may receive back substantially less than the full amount invested.

Foreign-currency denominated commodity contracts and financial instruments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such securities or financial instruments. Changes in rates of exchange may have an adverse effect on the value or price of investments in sterling terms. All investments may fluctuate in value.

Past performance is no guarantee of the future performance of investments. You should carefully consider in the light of your financial resources whether investing in stocks, shares, securities or collective investment schemes is suitable for you.

The Note holder and prospective purchasers of the Note should consider the risks described in this financial promotion and conduct their own investigations. In deciding whether or not to purchase the Note, prospective purchasers should form their own views of the risks involved and the merits

of an investment related to the underlying indices, based upon such investigations and not in reliance on any information given in the term sheet.

Insolvency Risk

When Merchant Securities Group Limited ("Merchant Securities") receives your investment, it will be deposited into an investor account at Pershing Securities Limited pending investment. In the event of Merchant Securities' insolvency during the period that your investment monies are held with Pershing Securities Limited, your money will be protected.

There exists a counterparty risk with the issuer who in this case is Morgan Stanley, which has an Aa3 Moody's/A+ S&P credit rating, as they are securing the Note against their balance sheet. Within the Note Morgan Stanley will purchase zero-coupon bonds which will be issued by one or more financial institutions which attract an A+ rating to offset the risks taken by them as issuer. In the event of Morgan Stanley's insolvency your money will not be protected and you must rely on any right of recourse you have to the Financial Services Compensation Scheme. You may therefore lose all or part of your initial capital investment.

Exit risk

The return of capital described above will exist on the basis that the investment is held until redemption. There may be risks associated with trading on the secondary market. The secondary market price of the securities will depend on many factors, including market liquidity, the value and volatility of the underlying indices, level of the underlying indices at any time on any day and time left until the maturity of the securities, interest rates, the dividend rate on the stocks that compose the underlying indices, and the creditworthiness of the issuer.

Therefore the Note holder may receive an amount which may be less than the then intrinsic market value of the securities and which may also be less than the amount the holder would have received had the holder held the securities through to maturity. This is because the full extent of the options are not realised until maturity, thus structured products are seen as more of a buy-and-hold investment strategy.

No interest

Unlike ordinary debt securities, the securities do not pay debt interest. On maturity, the return of only the principal amount will not compensate the holder on the securities for the effects of inflation and other factors relating to the value of money over time. The income is derived from an option strategy and not any form of debt or interest rate.

Hedging risk

On, or prior to and after, the trade date the issuer, through its affiliates or others, will likely hedge its anticipated exposure under the securities by taking positions in the stocks that comprise the underlying indices, in option contracts on the stocks that compose the underlying indices or positions in any other available securities or instruments. In addition, the issuer and its affiliates trade the stocks that compose the underlying indices as part of their general businesses. Any of these activities could potentially affect the

value of the underlying indices, including on the determination date, and accordingly could significantly affect the payout to holders on the securities.

Liquidity risk

The Notes will not be traded on an organised exchange. Although the issuer will make a secondary market in the Notes on a best efforts basis, the liquidity of the Notes may be limited. The liquidity of the Notes reflects the liquidity of the securities that underlie the underlying equity.

Adjustment and disruption risk

The sponsor of the FTSE-100 index can add, delete or substitute stocks constituting the respective index or make other methodological changes that could change the value of the respective index without regard to the interests of holders of the securities. Any of these decisions/determinations may adversely affect the value of the securities and may result in you receiving a return that is materially different from that received if the event had not occurred.

Underlying sponsor risk

The sponsor of each underlying index is not an affiliate of the issuer or its affiliates and is not involved with this offering in any way. Consequently, the issuer has no ability to control the actions of the sponsor of each underlying index, including rebalancing that could trigger an adjustment to the terms of the Note.

Note details

Secondary market

Morgan Stanley & Co. International Plc will endeavour to provide a secondary market in the Note with a bid-offer spread of 1%, so that the investment can be traded (bought or sold) at any point prior to maturity. Although in particular market conditions it may not be possible for the issuer to make a market or if so they may widen the bid/ offer spread.

Taxation

It is our opinion that the return of this product will be treated as capital gains tax. You should consult your tax and accounting advisers to the extent you deem necessary.

This Note can be used as an investment within a SIPP/SSAS or ISA.

Fees and expenses

Merchant Securities' dealing and management fees are not included and will be applied according to our standard charges for equity investments or at a rate as agreed with your Merchant Securities account manager. Merchant Securities will charge the issuer a fee for the design and set-up of the Structured Note, which will be the equivalent of no more than 0.85% per annum of the issue amount, which has been taken into account in the terms

of the product. Details of fees and charges are included in our standard Terms of Business available at www.merchantsecurities.co.uk/products-and-services.asp.

Publication of price

To obtain the latest price of the Merchant Securities Hindsight II Note please speak to your financial adviser or your usual contact at Merchant Securities.

Information

For further information on this Note please speak to your usual contact at Merchant Securities on 0207 375 9010

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