

**Morgan Stanley AIP GP LP**  
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**March 31, 2011**

This brochure dated March 31, 2011 (the “Brochure”) provides information about the qualifications and business practices of Morgan Stanley AIP GP LP (“Morgan Stanley AIP”). If you have any questions about the contents of this Brochure, please contact us at (610) 260-7600. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Morgan Stanley AIP is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about Morgan Stanley AIP is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2 – Material Changes**

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to you as required by SEC rules. This Brochure is a new document prepared according to the SEC’s new requirements and rules. As such, this document is materially different in structure and requires certain new information that we previously were not required to provide to you. Please note that this Brochure has been prepared for the purpose of complying with regulatory requirements and should not be deemed to be an offer of securities or investment advisory services.

In the future, this Item will set forth specific material changes that have been made to the Brochure and we will provide you with a summary of such changes. In the past, we have offered to provide you with information about our qualifications and business practices on at least an annual basis. Pursuant to new SEC rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our fiscal year. We will also provide other ongoing disclosure information about material changes as necessary.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Currently, the Brochure may be requested by contacting Jeffrey Kurian at (212) 296-7774 or [Jeffrey.Kurian@morganstanley.com](mailto:Jeffrey.Kurian@morganstanley.com).

Additional information about Morgan Stanley AIP GP LP is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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#### **Item 4 – Advisory Business**

Our firm is organized as a Delaware limited partnership and is an indirect, wholly owned subsidiary of Morgan Stanley, a publicly traded company. Its general partner is Morgan Stanley Alternative Investments LLC (“MSAI”) and its limited partner is Morgan Stanley Investment Management Inc. (“MSIM”). Each of MSAI and MSIM is wholly owned by Morgan Stanley. We have been registered with the Securities and Exchange Commission since 2001.

**In General:** Our advisory business consists primarily of identifying investment opportunities and making investments in diversified portfolios of traditional and non-traditional investment funds. Advisory services of this nature are provided to Funds (as defined below) and separate accounts (together referred to herein as the “Accounts”) on a discretionary and non-discretionary basis. When we use the term “Funds” in this Brochure, it refers to both pooled investment vehicles and those entities that are established as investment vehicles for a single account or investor. The underlying funds in which we invest are referred to throughout this Brochure as the “Investment Funds” and the third party investment managers who manage the Investment Funds are referred to as the “Investment Managers”.

In addition to providing advisory services to the Funds as described above, we may also act as the adviser of certain other funds (or other similar vehicles) that are established to invest alongside the Funds described above or underlying private equity funds in connection with a specific investment (collectively, the “Co-Investment Partnerships”).

Our advisory business focuses on three fund of funds strategies: (1) fund of hedge funds; (2) private equity fund of funds; and (3) private equity real estate fund of funds.

**Fund of Hedge Funds:** Our fund of hedge funds investment process consists of investing in hedge funds managed by Investment Managers who employ a variety of non-traditional liquid market investment strategies and certain investment funds managed in a traditional style. In addition, certain of the fund of hedge funds Accounts may make investments directly in privately held companies or publicly traded companies in which an Account invests alongside an Investment Fund, typically an Investment Fund in which the Account invests directly (“Co-Investment”) as part of its investment strategy or make investments in secondary market purchases of interests in hedge funds.

**Private Equity Fund of Funds:** For our private equity funds of funds strategies, we implement our investment advice through three primary investment approaches: (a) primary commitments to Investment Funds; (b) Co-Investments, primarily alongside our existing Investment Managers; and (c) secondary market purchases of interests in existing private equity funds.

**Private Equity Real Estate Fund of Funds:** For our private equity real estate fund of funds strategy, we generally implement investment advice through: (i) primary commitments to Investment Funds; (ii) Co-Investments; (iii) secondary market purchases of interests in existing private equity real estate funds; and (iv) investments in managers transitioning to real estate fund management from real estate management, ownership and/or development as part of their investment strategy (“manager incubation investments or “MII”).

**Customized Solutions Services:** Two groups operate under Customized Solutions Services: Hedge Fund Advisory Services and the Portfolio Solutions Group. Hedge Fund Advisory Services works with the clients of our affiliate on customizing advisory hedge fund solutions. We

do not have investment discretion over these accounts, but will design a custom portfolio of hedge funds selected from an approved manager list for consideration by the client. The Portfolio Solutions Group provides analytic support to Hedge Fund Advisory Services.

Operational Due Diligence Services: As part of our investment management process for funds of hedge funds, we perform operational due diligence on and periodically monitor, the operational control environment of the Investment Managers. Our fund of hedge funds operational due diligence team may arrange to provide similar operational due diligence and monitoring services to certain of our affiliates.

We will tailor our services to the needs of clients by managing portfolios in accordance with the investment guidelines and restrictions as set forth in the investment management agreement (with respect to separately managed accounts) and the applicable offering and governing documents (with respect to the Funds).

We do not participate in any wrap fee programs.

As of December 31, 2010, we managed \$11,625,650,481 in client assets on a discretionary basis and \$47,305,428 in client assets on a non-discretionary basis. The fund of hedge funds component of our assets under management is based on the total net asset value of all funds of hedge funds Accounts. The private equity fund of funds and private equity real estate fund of funds component of our assets under management is based on the total net asset value of funded private equity and private equity estate assets in our Accounts and unfunded investors commitment in such Accounts.

## Item 5 – Fees and Compensation

### Funds:

For advisory services rendered to the Funds pursuing a *fund of hedge funds investment strategy*, we are entitled to a fee in an amount ranging (on an annualized basis) from 0.55% to 1.50% of the net asset value of the applicable Fund.

For advisory services rendered to certain of the Funds pursuing a *private equity fund of funds investment strategy*, prior to the fifth anniversary of the first due date of the capital contribution of the applicable Funds or prior to the termination of the investment period of the applicable Funds, we are entitled to a fee ranging (on an annualized basis) from 0.90% to 1.50% of your capital commitment. For certain Funds, from and after such date, the fee is based on your aggregate contributions respecting Investment Funds *plus your* attributable share of the aggregate unfunded capital commitments made by the applicable Fund to Investment Funds, as of each date of calculation of the management fee, *less* the amount distributed to you by the Fund as a return of capital used to fund the acquisition costs of each investment.

For advisory services rendered to the Funds pursuing a *private equity real estate fund of funds investment strategy* and for certain of the Funds pursuing a *private equity fund of funds investment strategy*, we are entitled to a fee that ranges (on an annualized basis) from 0.90% to 1.50% (depending on your capital commitment). This fee schedule is applicable for the period prior to the fifth anniversary of the due date of the Fund's first capital call. Thereafter, the management fee will equal the Management Fee Percentage (as defined below) of your capital commitment. The "Management Fee Percentage" means a percentage equal to 75% of the percentage used to calculate the management fee for the preceding year.

Certain Funds that pursue a private equity fund of funds strategy or a private equity real estate fund of funds strategy are required to pay the management fee quarterly in advance. We do not provide refunds for fees paid in advance with respect to Funds pursuing a private equity fund of funds strategy or a private equity real estate fund of funds strategy.

Investors in Funds pursuing a fund of hedge funds investment strategy are generally billed on a monthly basis. Investors in Funds pursuing private equity fund of funds and private equity real estate fund of funds investment strategies are billed on a quarterly basis.

Subject to applicable law and the relevant Fund's governing documents, the general partner of a Fund may enter into arrangements with certain investors that have the effect of altering or supplementing the terms of such investors' investments in a Fund, including with respect to waivers or reductions of the management fee and the incentive allocation, access to portfolio information, rights to make withdrawals and circumstances under which withdrawals may be required. Certain investors in the Funds are subject to regulatory regimes that may require them to withdraw from a Fund upon the occurrence of certain events in order to avoid a violation of law or severe tax consequences. In order to give comfort to investors facing these issues, the general partner will sometimes extend to certain investors special rights to withdraw from a Fund, without payment of any withdrawal fee in order, for example, to avoid a violation by the investor of the U.S. Bank Holding Company Act of 1956, as amended (the "BHCA") or the U.S. Employee Retirement Security Act of 1974, as amended ("ERISA") or to avoid a violation of foreign law or severe foreign tax consequences to the investor. The general partner, in its sole and absolute discretion but subject to applicable law, from time to time, may authorize the

disclosure of information regarding Fund performance and other Fund information, including the positions held in the Fund's investment portfolio, its risk profile and other information, to certain investors but not all investors generally. The governing documents of each Fund will generally impose appropriate limitations on the use of such information so that the disclosure thereof does not adversely affect the Fund. However, the recipients of the information may be in a position to make more informed decisions regarding their investment in the Fund than other investors, such as whether or when to exercise any rights of redemption from, or make additional investments in, the Fund.

In connection with providing advisory services to the Co-Investment Partnerships, the fees paid to us are determined on an arms length basis at the time such Co-Investment Partnerships are established.

You can expect to incur fees and other expenses, either directly or indirectly, while invested in any of our Funds. Fees and expenses include, but are not limited to, the operating expenses and performance-based incentive fees of the Investment Funds in which such Funds invest. Operating expenses typically consist of management fees, administration fees, professional fees (i.e., audit and legal fees), and other operating expenses. With respect to Funds that pursue a private equity fund of funds strategy or a real estate private equity fund of funds strategy, the management fee will be in addition to your capital commitment.

Broker-dealers who are our affiliates may act as placement agents to assist in the placement of a Fund's interests. Any placement fee will be paid by you and is in addition to your capital commitment. The amount of any placement fee will be described in the placement agent's point of sale letter. However, the placement agents or distributors may in their sole discretion waive the placement fees payable by an investor, including an investor that is an employee or affiliate of ours.

**Separate Accounts:**

The fees we charge for separate account management services vary based on the particular circumstances of the client or as otherwise negotiated. Our services are terminable by either party in accordance with the applicable contractual notice provision. Fees on separate accounts are generally billed quarterly in arrears, although in some cases they are billed quarterly in advance. The timing of fee payments will vary in accordance with client preferences.

**Customized Solutions Services:**

We charge a fee to our affiliate for conducting investment and operational due diligence on hedge funds, providing portfolio advisory services in connection with customized mandates, and for managing a list of hedge funds into which qualified advisory clients of our affiliate may invest. Fees on Hedge Fund Advisory Services are invoiced to our affiliate quarterly in arrears.

**Operational Due Diligence Services:**

In some cases, we may charge a fee, negotiated on a case-by-case basis, for performing operational due diligence on, and periodically monitoring, the operational control environment of fund of hedge fund Investment Managers.

**Brokerage Commissions:**

In limited circumstances, we may retain independent brokers who offer asset purchase opportunities to us in certain fund of funds secondary transactions. In these instances, we allocate all fees and commissions related thereto *pro rata* to the participating Accounts. Aggregate fees/commissions generally range from 0.75% to 1.00% for Accounts pursuing a fund of hedge

funds investment strategy, and from 0.50% to 1.25% for Accounts pursuing a private equity fund of funds and private equity real estate fund of funds investment strategy.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

In the case of certain Accounts, the existence of a performance fee or allocation may create an incentive for us to make more speculative investments for the Account than we otherwise would make in the absence of such performance-based compensation. Any performance fee or allocation received by us or our affiliates will be in compliance with the requirements of Section 205 of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and Rule 205-3 thereunder. In certain circumstances, the general partner of a Fund may defer or waive all or any part of the performance fee or allocation.

Conflicts of interest may arise where one or more Accounts are charged a performance fee or allocation and one or more Accounts are not. We have adopted allocation policies that prohibit our portfolio managers and investment committee members from taking into account performance fee issues when making investment allocation decisions among Accounts. The allocation procedures were designed to ensure that all investment allocation decisions are being made fairly and equitably among Accounts over time.

## **Item 7 – Types of Clients**

We generally provide investment advice to registered and unregistered investment companies, pooled investment vehicles, separate accounts, corporate/business entities and foreign government agencies. In addition, we provide hedge fund manager research services to our affiliate.

Investors who wish to participate in our Funds are generally required to invest a certain minimum amount, which ranges (depending on the Fund) from \$50,000 to \$100 million. Certain Funds may have minimum additional investment requirements. Certain Funds require that you must be, among other qualifications, a “qualified purchaser”, as defined under the Investment Company Act of 1940, as amended (the “1940 Act”).

The minimum account size for a separate account is negotiated on a case-by-case basis.

Investors who wish to participate in Morgan Stanley AIP Hedge Fund Advisory’s customized portfolio accounts are generally required to invest a minimum amount of \$25 million.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

The core of our investment approach is a research intensive strategy and manager selection process intended to exploit market inefficiencies and other situations outside the mainstream of conventional investing while minimizing risk. Investments are selected opportunistically and managed dynamically from the complete range of liquid and private market strategies appropriate for each Account. The offering documents and/or governing documents and, in applicable cases, the client's investment management agreement provide a fuller description of the types of Investment Funds in which we cause an Account to invest. Our personnel use a wide range of resources to identify attractive Investment Funds and promising investment strategies for consideration in connection with investments by the Accounts. Our main sources of information include contacts with industry executives, established business relationships, and research materials prepared by others.

Fund of Hedge Funds: Our fund of hedge funds investment process consists of investing in hedge funds managed by Investment Managers who employ a variety of non-traditional liquid market investment strategies and certain investment funds managed in a traditional style. Liquid market investment strategies include a wide range of arbitrage (convertible bond, statistical, term structure, merger, mortgage backed security, global bond and capital structure), long-short equities and bonds, convergence, directional trading, distressed securities and options. These strategies allow Investment Managers the flexibility to use leverage or short-sale positions to take advantage of perceived inefficiencies across capital markets and are referred to as “alternative investment strategies”. “Traditional” investment companies are characterized generally by long-only investments and limits on the use of leverage. Investment Funds following alternative investment strategies (whether hedged or not) are often described as “hedge funds”. We may also seek to gain investment exposure, on behalf of an Account, to certain Investment Funds or to adjust market or risk exposure by, among other things, entering into derivative transactions such as total return swaps, options and futures. Our fund of hedge funds Accounts may also make Co-Investments as part of its investment strategy.

For certain Funds that employ a fund of hedge funds investment strategy we manage a portion of such Fund's assets in overlay strategies related to portable alpha applications of its alternative investments. Portable alpha is the process whereby alpha (defined as the return in excess of the risk-free rate) is transported onto a traditional asset class return (such as equities or fixed income) to enhance the return of the monies allocated to the underlying asset class without necessitating an alteration in the investor's asset allocation. For example, we may enter into a total return swap (with an external counterparty) on behalf of the Fund for the total return on the S&P 500 Index in exchange for payments of Libor + 50 basis points. The net return to the investor = (Fund of hedge funds return + S&P 500) - (Libor + 50 basis points).

Private Equity Fund of Funds: For our private equity funds of funds strategies, we implement our investment advice through three primary investment approaches: (a) primary commitments to Investment Funds; (b) Co-Investments, primarily alongside our existing primary Investment Fund managers; and (c) secondary market purchases of existing private equity Investment Funds. Our private equity fund of funds strategies may, in some cases, make investments in other than Investment Funds (both on a primary or secondary basis) or Co-Investments, such as illiquid private assets sourced from other alternative investment vehicles and/or publicly traded securities of private equity businesses or funds (“Other Investments”).

Our private equity fund of funds investment process generally consists of making primary commitments to and investing in private equity funds managed by Investment Managers who

employ a variety of non-traditional private markets investment strategies. Private market strategies include buyouts, growth capital, venture capital, distressed companies, special situations, mezzanine, opportunistic real estate, partnership interests purchased and sold on the secondary markets, emerging markets and other categories. A private equity fund of funds Account may also make Co-Investments as part of its investment strategy and Other Investments.

Private Equity Real Estate Fund of Funds: For our private equity real estate fund of funds strategy, we generally implement investment advice through: (i) primary commitments to Investment Funds; (ii) Co-Investments; (iii) secondary market purchases of existing private equity real estate Investment Funds; and (iv) investments in managers transitioning to real estate fund management from real estate management, ownership and/or development as part of their investment strategy (“manager incubation investments or “MII”).

The private equity real estate fund of funds investment team focuses primarily on small and mid-size funds, which in our opinion, have a sustainable strategy for generating superior risk-adjusted returns across real estate market cycles, demonstrate a differentiated skill set, emphasize strong real estate fundamentals in pursuing their strategies and have a demonstrated in-depth knowledge of their local markets. We will seek to invest with managers that have: (i) strong management teams that we like, trust and admire; (ii) a clear alignment of interests with their investors and employ best practices in fund governance; (iii) access to a proprietary pipeline of investment opportunities (providing us with access to scarce or difficult-to-find real estate opportunities); (iv) a demonstrated ability to execute on a disciplined and repeatable investment strategy; (v) an established track record and experience; (vi) a thorough investment process with robust infrastructure; and (vii) transparent reporting.

All investing and trading activities risk the loss of capital. Although we will attempt to moderate these risks, no assurance can be given that the investment activities of the Accounts will be successful or that you will not suffer losses. Investing in securities involves risk of loss that you should be prepared to bear.

### **Risks of a Fund of Funds Investment Strategy Generally**

*Multiple Layers of Fees.* By investing in the Investment Funds indirectly through the Accounts, you bear asset-based fees and performance-based fees or allocations at the Investment Fund level, in addition to those payable to us in its capacity as investment adviser to each Account. Similarly, you bear a proportionate share of the other operating expenses of (i) the Investment Funds in which the Accounts are invested; and (ii) of the Accounts themselves. If you meet the conditions imposed by the Investment Managers, you could invest directly with such Investment Managers.

*Illiquidity of Interests; Limitations on Transfer; No Market for Fund Interests.* You will not be permitted to transfer your interest in a Fund without the consent of the general partner of the Fund. Furthermore, the transferability of your interest will be subject to certain restrictions contained in the governing documents of a Fund, and will be affected by restrictions imposed under applicable securities laws. The general partner of a Fund will not consent to any transfer or other disposition that could cause the Fund to be treated as a “publicly traded partnership” under the Internal Revenue Code. There is currently no market for the interests, and it is not contemplated that one will develop. You should only acquire interests if you are able to commit your funds for an indefinite period of time.

*Absence of Regulatory Oversight.* Certain of the Funds and the Investment Funds are not registered as investment companies under the 1940 Act. Certain of our Funds, as investors in these Investment Funds, do not have the benefit of the protections afforded by the 1940 Act to investors in registered investment companies. In addition, the Investment Managers of the Investment Funds often are not registered as investment advisers under the Advisers Act. Although we periodically receive information from each Investment Fund regarding its investment performance and investment strategy, we may have little or no means of independently verifying this information. An Investment Fund may use proprietary investment strategies that are not fully disclosed to us, which may involve risks under some market conditions that are not anticipated by us. Investment Managers may change their investment strategies (i.e., may experience style drift) at any time. In addition, we have no direct control over any Investment Funds' investment management, brokerage, custodial arrangements or operations and must rely on the experience and competency of the Investment Manager in these areas. The performance of our Funds depends on our success in selecting Investment Funds for investment by the Funds and the allocation and reallocation of assets among those Investment Funds.

The Investment Funds typically do not maintain their securities and other assets in the custody of a bank or a member of a securities exchange, as generally required of registered investment companies. It is anticipated that the Investment Funds in which the Funds invest generally will maintain custody of their assets with brokerage firms that do not separately segregate such customer assets as required in the case of registered investment companies. Under the provisions of the Securities Investor Protection Act of 1970, as amended, the bankruptcy of any such brokerage firm could have a greater adverse effect on the Funds than would be the case if custody of assets were maintained in accordance with the requirements applicable to registered investment companies. There is also a risk that an Investment Manager could convert assets committed or paid to it by the Funds for its own use or that a custodian could convert assets committed to it by an Investment Manager to its own use.

Each Investment Manager may receive any incentive-based fees to which it is entitled irrespective of the performance of the other Investment Funds and the Fund generally. As a result, an Investment Manager with positive performance may receive compensation from the Fund, in the form of the asset-based fees, incentive-based fees and other expenses payable by the Account as an investor in the relevant Investment Fund, even if the Fund's overall returns are negative. The investment decisions of the Investment Funds are made by the Investment Managers independently of each other so that, at any particular time, one Investment Fund may be purchasing shares in an issuer that at the same time are being sold by another Investment Fund. Transactions of this sort could result in a Fund directly or indirectly incurring certain transaction costs without accomplishing any net investment result, which may result in the pursuit of opposing investment strategies or result in performance that correlates more closely with broader market performances. Because a Fund may make additional investments in or redemptions from Investment Funds only at certain times according to limitations set out in the governing documents of each such fund, a Fund from time to time may have to invest some of its assets temporarily in money market securities or money market funds, among other similar types of investments.

Investment Funds may permit or require that redemptions of interests be made in kind. Upon its redemption of all or a portion of its interest in an Investment Fund, a Fund may receive securities that are illiquid or difficult to value. In such a case, we would seek to cause the Fund to dispose of these securities in a manner that is in the best interest of the Fund. A Fund may not be able to withdraw from an Investment Fund except at certain designated times (if at all), limiting our

ability to redeem assets from an Investment Fund that may have poor performance or for other reasons.

*Inadequate Return.* No assurance can be given that the returns on an Investment Fund will be commensurate with the risk of your investment. You should not commit money to a Fund or a separate account unless you have the resources to sustain the loss of your entire investment. Any losses are borne solely by you and not by us or our affiliates.

*Inside Information.* From time to time, we may come into possession of material, non-public information concerning an entity in which an Account has invested, or proposes to invest. Possession of that information may limit our ability to buy or sell securities of the entity on your behalf.

*Long-Term Investments; No Current Return.* The return of capital in cash or other property, the realization of gains in cash or other property (if any), and actual distribution thereof to any Account generally will occur only upon collection of distributions from the underlying Investment Funds in which the Accounts invest. In the case of such Investment Funds, timing of distributions will be completely out of our control. The ability of an Account to return capital will depend in part upon the withdrawal rights provided by the corresponding Investment Funds in which the Account is invested. Investment Funds may only permit withdrawals on an annual or less frequent basis and may have the ability to suspend withdrawals. Additionally, an Investment Fund may make distributions in-kind. An Account may be unable to withdraw cash from its corresponding Investment Funds whenever it desires.

*General Economic and Market Conditions.* The success of an Account's activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of security prices and liquidity of the Account's investments. Unexpected volatility or lack of liquidity, such as the general market conditions that have prevailed recently, could impair the Account's profitability or result in its suffering losses.

*Estimates.* In most cases, we will have no ability to assess the accuracy of the valuations received from an Investment Manager. Furthermore, the net asset values or other valuation information received by us from such Investment Managers will typically be estimates only, subject to revision through the end of each Investment Fund's annual audit. Revisions to the gain and loss calculations will be an ongoing process, and no net capital appreciation or depreciation figure can be considered final until the annual audit of each Investment Fund is completed.

*Conflicts of Interest.* As a diversified global financial services firm, Morgan Stanley engages in a broad spectrum of activities including financial advisory services, asset management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and other activities. In the ordinary course of business, Morgan Stanley engages in activities in which Morgan Stanley's interests or the interests of its clients may conflict with the interests of a Fund or investors. The potential for Morgan Stanley, as placement agent, to receive compensation in connection with a client's investment in a Fund presents such placement agent with a potential conflict of interest in recommending that such client purchase interests in a Fund. Such placement agent may in its sole discretion waive the placement fees payable by a client. You should take such payment arrangements into account where evaluating any recommendations relating to your investments.

*Legal and Regulatory Risks.* The regulation of the U.S. and non-U.S. securities and futures markets and Investment Funds has undergone substantial change in recent years and such change may continue. In particular, in light of the recent market turmoil there have been numerous proposals, including bills that have been introduced in the U.S. Congress, for substantial revisions to the regulation of financial institutions generally. Some of these bills introduced in Congress would require additional regulation of private fund managers, including requirements for such managers to register as investment advisers under Advisers Act and disclose various information to regulators about the positions, counterparties and other exposures of the private funds managed by such managers. The effect of regulatory change on the Investment Funds, while impossible to predict, could be substantial and adverse. In addition, the practice of short selling has been the subject of numerous temporary restrictions, and similar restrictions may be promulgated at any time. Such restrictions may adversely affect the returns of Investment Funds that utilize short selling.

*Regulation as a Bank Holding Company.* On September 21, 2008, Morgan Stanley obtained approval to become a bank holding company (a “BHC”) under the BHCA upon the conversion of its wholly-owned indirect subsidiary, Morgan Stanley Bank, from a Utah industrial bank to a national bank. Concurrent with this conversion, Morgan Stanley became a “financial holding company” (a “FHC”) under the BHCA, which is a status available to BHCs that meet certain criteria. FHCs may engage in a broader range of activities than BHCs that are not FHCs. However, the activities of FHCs and their affiliates remain subject to certain restrictions imposed by the BHCA and related regulations. Because Morgan Stanley is deemed to “control” the Funds within the meaning of the BHCA, these restrictions are expected to apply to the Funds as well.

*Recent Legislative Events.* On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, including Section 619 (the “Volcker Rule”) which will, when effective, limit the extent to which a “banking entity,” such as Morgan Stanley and its affiliates, may sponsor or invest in a hedge fund or private equity fund. When the Volcker Rule becomes effective, which will be no later than July 21, 2012, it will limit the aggregate equity interests, partnership interests and other ownership interests of Morgan Stanley in hedge funds and private equity funds to a maximum of 3% of Morgan Stanley’s Tier 1 capital. In addition, Morgan Stanley will be able to own no more than 3% of the total ownership interests of any private equity fund or hedge fund that Morgan Stanley organizes and offers. Banking entities such as Morgan Stanley also will not be permitted, directly or indirectly, to guarantee, assume or otherwise insure the obligations or performance of such funds, or any funds in which such funds invest. Upon effectiveness, the Volcker Rule will also prohibit Morgan Stanley from engaging in certain “covered transactions” with the Fund, such as extensions of credit. The Volcker Rule may require Morgan Stanley and its affiliates (including us) to restructure or terminate our affiliations with certain of our Funds. During a statutory transition period for Morgan Stanley to comply with the requirements of the Volcker Rule, the Funds may need to change their names so as to avoid sharing a name with Morgan Stanley, and our affiliates may need to reduce its investment in a Fund so as to comply with the 3% limitation on Morgan Stanley’s investment of Tier 1 capital, and take other actions. Because the Volcker Rule would constitute a recent legislative change, the full scope of its impact is not yet known. There may be other direct or indirect consequences of the Volcker Rule and the Dodd-Frank legislation that affect Morgan Stanley, its affiliates or the General Partner and that may result in a material adverse effect on the Funds.

The Investment Funds in which Accounts invest are subject to the following principle risks, among others:

**Fund of Hedge Funds Generally:**

*Restricted and Illiquid Investments.* Although we anticipate that most Investment Funds will invest primarily in publicly traded securities, they may invest a portion of the value of their total assets in restricted securities and other investments that are illiquid. Restricted securities are securities that may not be sold to the public without an effective registration statement under the Securities Act of 1933, as amended, or that may be sold only in a privately negotiated transaction or pursuant to an exemption from registration.

When registration is required to sell a security, an Investment Fund may be obligated to pay all or part of the registration expenses, and a considerable period may elapse between the decision to sell and the time the Investment Fund may be permitted to sell a security under an effective registration statement. If adverse market conditions developed during this period, an Investment Fund might obtain a less favorable price than the price that prevailed when the Investment Fund decided to sell. Investment Funds may be unable to sell restricted and other illiquid securities at the most opportune times or at prices approximating the value at which they purchased the securities.

A Fund's interests in Investment Funds are themselves illiquid and subject to substantial restrictions on transfer. A Fund's ability to liquidate an interest in an Investment Fund will likely be limited. A Fund is subject to certain Investment Funds' initial lock-up periods beginning at the time of a Fund's initial investment in an Investment Fund, during which a Fund may not withdraw its investment. In addition, certain Investment Funds may at times elect to suspend completely or limit withdrawal rights for an indefinite period of time in response to market turmoil or other adverse conditions (such as those experienced by many hedge funds during late 2008 into 2009). Investment Funds may also assess fees for redemptions or other withdrawals. The limited liquidity of these Investment Funds' interests may adversely affect a Fund were it to have to sell or redeem such interests at an inopportune time. A Fund may need to suspend or postpone repurchase offers if it is not able to dispose of its interests in Investment Funds in a timely manner.

Some of the Investment Funds may hold a portion of their assets in "side pockets" which are sub-accounts within the Investment Funds in which certain assets (which generally are illiquid and/or hard to value) are held and segregated from the Investment Fund's other assets until some type of realization event occurs. Side pockets thus have restricted liquidity, potentially extending over a much longer period than the typical liquidity an investment in the Investment Funds may provide. Should a Fund seek to liquidate its investment in an Investment Fund that maintains these side pockets, such Fund might not be able to fully liquidate its investment without delay, which could be considerable. In such cases, until a Fund is permitted to fully liquidate its interest in the Investment Fund, the value of its investment in such Investment Fund could fluctuate based on adjustments to the fair value of the side pocket as determined by the Investment Manager. In addition, if an Investment Fund establishes a side pocket prior to a Fund's investing in the Investment Fund, such Fund may not be exposed to the performance of the Investment Fund's assets held in the side pocket.

*Use of Derivatives:* Certain of our Funds, and some or all their respective Investment Funds, may invest in, or enter into, derivative or derivative transactions ("Derivatives"). Derivatives are financial instruments that derive their performance, at least in part, from the performance of any underlying asset, index or interest rate. Derivatives entered into by an Investment Fund can be

volatile and involve various types and degrees of risk, depending upon the characteristics of a particular Derivative and the portfolio of the Fund or Investment Fund. If a Fund or an Investment Fund invests in Derivatives at an inopportune time or incorrectly judges market conditions, the investments may lower the return of the Fund or Investment Fund or result in a loss. A Fund or an Investment Fund also could experience losses if Derivatives are poorly correlated with its other investments, or if the Fund or Investment Fund is unable to liquidate the position because of an illiquid secondary market.

*Highly Volatile Markets:* The prices of commodities contracts and all Derivatives, including futures and options, can be highly volatile. Investment Funds are subject to the risk that trading activity in securities in which the Investment Funds invest may be dramatically reduced or cease at any time, whether due to general market turmoil, problems experienced by a single issuer or a market sector or other factors. If trading in particular securities or classes of securities is impaired, it may be difficult for an Investment Fund to properly value any of its assets represented by such securities.

*Leverage Utilized by Investment Funds:* Investment Funds may utilize leverage in their investment activities. Specifically, some or all of the Investment Funds may make margin purchases of securities and, in connection with these purchases, borrow money from brokers and banks for investment purposes. Although leverage will increase investment returns if an Investment Fund earns a greater return on the investments purchased with borrowed funds than it pays for the use of those funds, the use of leverage will decrease the return on an Investment Fund if the Investment Fund fails to earn as much on investments purchased with borrowed funds as it pays for the use of those funds. The use of leverage will in this way magnify the volatility of changes in the value of an investment in the Investment Funds.

*Distressed Securities:* Certain of the companies in whose securities the Investment Funds may invest may be in transition, out of favor, financially leveraged or troubled, or potentially troubled, and may be or have recently been involved in major strategic actions, restructurings, bankruptcy, reorganization or liquidation. These characteristics of these companies can cause their securities to be particularly risky, although they also may offer the potential for high returns. These companies' securities may be considered speculative, and the ability of the companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within the companies. An Investment Fund's investment in any instrument is subject to no minimum credit standard and a significant portion of the obligations and preferred stock in which an Investment Fund may invest may be less than investment grade (commonly referred to as junk bonds), which may result in the Investment Fund's experiencing greater risks than it would if investing in higher rated instruments.

*Short Sales:* An Investment Fund may attempt to limit its exposure to a possible market decline in the value of its portfolio securities through short sales of securities that its Investment Manager believes possess volatility characteristics similar to those being hedged. An Investment Fund may also use short sales for non-hedging purposes to pursue its investment objectives if, in the Investment Manager's view, the security is over-valued in relation to the issuer's prospects for earnings growth. Short selling is speculative in nature and, in certain circumstances, can substantially increase the effect of adverse price movements on an Investment Fund's portfolio. A short sale of a security involves the risk of an unlimited increase in the market price of the security that can in turn result in an inability to cover the short position and a theoretically unlimited loss. No assurance can be given that securities necessary to cover an Investment Fund's short position will be available for purchase.

**Private Equity Fund of Funds Generally:**

*Buy-Out Transactions:* Certain of our private equity fund of funds may invest directly, or indirectly through Investment Funds, in leveraged buyouts that by their nature require companies to undertake a high ratio of leverage to available income. Leveraged investments are inherently more sensitive to declines in revenues and to increases in expenses.

*Control Positions:* Certain of our private equity fund of funds may directly, or indirectly through Investment Funds, take control positions in companies. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise and other types of related liability. If such liabilities were to arise, such Investment Fund would likely suffer a loss, which may be complete, on its investment.

*Investing in Special Situations:* Certain of our private equity fund of funds may invest directly, or indirectly through Investment Funds, in companies that are involved in (or are the target of) acquisition attempts or tender offers, or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving these types of transactions, there exists the risk that the transaction will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to certain of our private equity fund of funds. As a result, certain of our private equity fund of funds may suffer a loss, which may be complete, on its investment.

*Venture Capital Investments:* Certain of our private equity fund of funds may directly, or indirectly through Investment Funds, make venture capital investments. Such investments involve a high degree of business and financial risk that can result in substantial losses. The most significant risks are the risks associated with investments in: (i) companies in an early stage of development or with little or no operating history; (ii) companies operating at a loss or with substantial fluctuations in operating results from period to period; and (iii) companies with the need for substantial additional capital to support or to achieve a competitive position.

*Use of Hedging Instruments:* Certain of our private equity fund of funds and Investment Funds may choose, but are not required, to engage in transactions designed to reduce the risk or to protect the value of their investments, including securities and currency hedging transactions. There is no restriction on certain of our private equity fund of funds' ability to engage in short-sale and derivative transactions, including, without limitation, forward contracts and option and swap transactions involving portfolio company securities (an entity in which the Investment Funds invest or in which our private equity funds of funds directly invest) or other securities, whether or not in connection with a hedging strategy. These hedging strategies could involve a variety of derivative transactions, including transactions in forward, swap and option contracts or other financial instruments with similar characteristics, including, without limitation, forward foreign currency exchange contracts, currency and interest rate swaps, options and short sales (collectively "Hedging Instruments"). Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of those positions decline, but establishes other positions designed to gain from those same developments, thus offsetting the decline in the portfolio positions' value. While these transactions may reduce the risks associated with an investment by certain of our private equity fund of funds or the Investment Funds, the transactions themselves entail risks that are different from those of the investments of certain of our private equity fund of funds or Investment Funds. The risks posed by these transactions include, but are not limited to, interest rate risk, market risk, the risk that these complex instruments and techniques will not be successfully evaluated, monitored or priced, the risk that counterparties will default on their obligations, liquidity risk and leverage risk. Changes in liquidity may result in significant, rapid and unpredictable changes in

the prices for derivatives. Thus, while certain of our private equity fund of funds and Investment Funds may benefit from the use of Hedging Instruments, unanticipated changes in interest rates, securities prices or currency exchange rates may result in a poorer overall performance for certain of our private equity fund of funds and Investment Funds than if they had not used such Hedging Instruments.

**Private Equity Real Estate Fund of Funds Generally:**

*Real Estate Market Conditions:* Some of the Investment Funds' real estate investment strategies may in some investments be based, in part, upon the premise that real estate businesses and assets will become available for purchase by such Investment Fund at prices that the Investment Manager of the Investment Fund considers more favorable. Further, the strategy of certain Investment Funds for its real estate investments may rely, in part, upon the continuation of existing market conditions (including, for example, supply and demand characteristics) or, in some circumstances, a recovery or improvement in market conditions over the projected holding period for the real estate investments. No assurance can be given that real estate investments can be acquired or disposed of at favorable prices or that the market for such investments will either remain stable or, as applicable, recover or improve, since this will depend upon events and factors outside the control of the managers of the Investment Funds.

*Acquisition and Development Risk:* Acquisitions entail risks that investments may not perform in accordance with expectations and that anticipated costs of improvements to bring an acquired property up to the necessary standard for the market position intended for that property may exceed budgeted amounts, as well as general investment risks associated with any new real estate investment. Certain Investment Funds may not be successful in identifying suitable real estate properties or other assets that meet their investment criteria or in consummating acquisitions or investments on satisfactory terms.

*Risks in Effecting Operating Improvements:* In some cases, the success of an Investment Fund's real estate investment strategy will depend, in part, on the ability of such Investment Fund to restructure and effect improvements in the operations of a portfolio company or its properties. The activity of identifying and implementing restructuring programs and operating improvements at portfolio companies entails a high degree of uncertainty. There can be no assurance that such Investment Fund will be able to successfully identify and implement such restructuring programs and improvements.

*Commercial/Business Risks:* It is anticipated that certain of our private equity real estate fund of funds will make investments in some Investment Funds, including MII, that have a limited operating history, a manager with limited private equity real estate fund management experience, or both. Such investments have inherently greater risk than more established private equity real estate funds. Accordingly, the growth of these Investment Funds may require significant time and effort resulting in a longer investment horizon than can be expected with lower risk investment alternatives. Such investments can experience failure or substantial declines in value at any stage. There is no assurance that such investments by certain of our private equity real estate fund of funds will be successful.

*Ability of Underlying Funds to Finance, Consummate and Dispose of Investments:* The Investment Funds' ability to generate attractive investment returns for their investors may be adversely affected to the extent the Investment Funds are unable to obtain favorable financing terms for their real estate investments and may also affect certain of our private equity real estate fund of funds' and the Investment Funds' ability to exit the investment. Certain marketplace events may have an adverse impact on the availability of credit to businesses generally and could

lead to an overall weakening of the global economies. Certain economic downturns could adversely affect the financial resources of corporate borrowers in which the Investment Funds have invested, in addition to the resources of operating partners and investment projects in which the Investment Funds participate, and result in the inability of such borrowers, partners and projects to make principal and interest payments on outstanding debt when due. In the event of such defaults, the Investment Funds may suffer a partial or total loss of capital invested in such companies, which could, in turn, have an adverse effect on the Investment Funds' and certain of our private equity real estate fund of funds' returns. Such marketplace events also may restrict the ability of the Investment Funds to sell or liquidate real estate investments at favorable times or for favorable prices.

We do not recommend a particular type of security, but generally recommend a fund of funds investment approach. The risks associated with a fund of fund investment approach are discussed more fully in Item 8B above.

**Item 9 – Disciplinary Information**

We are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. We have no information applicable to this Item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

### **Broker-Dealer Activities and Affiliations:**

We are not registered as a broker-dealer; however, certain of our “management persons” are registered representatives of Morgan Stanley Distribution Inc., a broker-dealer that is our affiliate.

We have arrangements for services material to our business with certain of our affiliates, including our broker-dealer affiliates: (i) Morgan Stanley & Co. Incorporated (“Morgan Stanley & Co.”); (ii) Morgan Stanley Distribution Inc.; and (iii) Morgan Stanley Smith Barney LLC (“MSSB”). Such services include, but are not limited to, serving as placement agent and/or distributor for the registered and unregistered investment companies for which we act as investment adviser. Any conflicts that may arise from this relationship are disclosed in the point of sale letter. We may use, from time to time, other broker-dealer affiliates organized outside the United States to place interests in the Funds that we offer that are organized outside the United States.

We have an arrangement with MSSB in which we conduct investment and operational due diligence on hedge funds, provide portfolio advisory services in connection with customized mandates, and provide access to a number of hedge funds into which qualified advisory clients of MSSB may invest.

### **Advisory Activities and Affiliations:**

We serve as investment adviser to Morgan Stanley Institutional Fund of Hedge Funds LP, Alternative Investment Partners Absolute Return Fund, Morgan Stanley Global Long/Short Fund A and AIP Multi-Strategy Fund A (the “Registered Funds”), each an investment company registered under the 1940 Act. In addition, we serve as adviser to investment funds that are not registered under the 1940 Act.

We may sweep the uninvested cash balances of the Funds into a high-quality institutional money market mutual fund advised by our affiliate. In such a case, the affiliated investment adviser will receive asset based fees in respect of a Fund's investment that will reduce the net return realized by the Fund. In the case of the Registered Funds, the advisory fee paid by a Registered Fund to our affiliate is reduced by the pro rata amount of the management and administrative fees paid by the Registered Fund to the respective money market mutual fund in connection with the Registered Fund's cash sweep investment.

Morgan Stanley Investment Management Inc (“MSIM”) serves as investment adviser to Morgan Stanley Institutional Fund, Inc., Morgan Stanley Institutional Fund Trust (“MSIF Trust”), The Universal Institutional Funds, Inc. (“UIF”), and the Morgan Stanley Liquidity Funds each an open-end investment company registered under the 1940 Act.

Morgan Stanley Alternative Investment Partners LP, serves as general partner to Morgan Stanley Institutional Fund of Hedge Funds LP and to certain unregistered pooled investment vehicles organized as limited partnerships that offer funds of hedge funds, private equity fund of funds and real estate funds of funds. In addition, we may share certain officers, directors and personnel with related investment advisers that manage assets for individuals, banks or thrift institutions, pension and profit sharing plans, trusts, estates or charitable organizations, corporations, and other private investment funds.

Private Investment Partners Inc serves as investment adviser to unregistered investment companies.

From time to time, we may, with your prior consent and to the extent permitted by applicable law, delegate some or all of our responsibilities, duties and authority under an investment management agreement to one or more of our affiliated investment advisers. Our affiliated advisers may likewise delegate some or all of their responsibilities, duties and authority to us.

**Other Regulatory Affiliations:**

We are registered as a Commodity Pool Operator (“CPO”) and as a Commodity Trading Adviser (“CTA”) with the Commodities Futures Trading Commission and are a member of the National Futures Association. Certain of our “management persons” are registered as associated persons of the CPO and CTA.

Morgan Stanley Alternative Investment Partners LP is registered as a CPO and MSIM is registered as a CPO and a CTA

We are an indirect, wholly owned subsidiary of Morgan Stanley, a publicly traded company. On September 21, 2008, Morgan Stanley obtained approval to become a BHC under the BHCA upon the conversion of its wholly-owned indirect subsidiary, Morgan Stanley Bank, from a Utah industrial bank to a national bank. Concurrent with this conversion, Morgan Stanley became an FHC under the BHCA, which is a status available to BHC’s that meet certain criteria. As such, Morgan Stanley is subject on a worldwide basis to regulation, examination and supervisions by the U.S. Board of Governors of the Federal Reserve System. Morgan Stanley may need to take actions to comply with banking regulations that apply to it even though such action may adversely affect the Funds and pose a conflict of interest with investors.

**Conflict Identification:**

We, along with Morgan Stanley, have established procedures intended to identify and mitigate conflicts of interest related to business activities on a worldwide basis. A conflict management officer for each business unit and/or region acts as a focal point to identify and address potential conflicts of interest in their business area. When appropriate, there is an escalation process to senior management within the business unit, and ultimately if necessary to firm management or the firm's franchise committees, for potentially significant conflicts that cannot be resolved by the conflict management officers or that otherwise require senior management review. If you invest in our Funds, we address conflicts through disclosure we provide to you and should any transactions presenting a potential conflict of interest actually arise, we may in certain situations choose to seek the approval of the Advisory Committee with respect to conflicts of interest or approvals required under the Advisers Act, including Section 206(3) thereunder. We may also choose to seek the approval of the limited partners in the applicable Fund with respect to certain conflict situations or matters under the Advisers Act.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Personal Trading:**

We have adopted a Code of Ethics (the "Code") pursuant to Rule 204A-1 under the Advisers Act. Each of our employees is required to acknowledge the Code at the inception of his/her employment and annually thereafter. The Code is designed to make certain that all acts, practices and courses of business engaged in by our employees are conducted in accordance with the highest possible standards and to prevent abuse, or even the appearance of abuse, by employees with respect to their personal trading and other business activities.

The Code requires all employees to pre-clear trades for covered securities, as defined under the Code, in a personal account. A pre-clearance request will be denied if there is an open order for a client in the same security. The Code also imposes holding periods and reporting requirements for covered securities, which include affiliated and sub-advised mutual funds. Our employees are prohibited from acquiring any security in an initial public offering or any other public underwriting. Investments in private placements or an employee's participation in an outside business activity must be pre-approved by the Code of Ethics Review Committee. Violations of the Code are subject to sanction, including reprimand, demotion, suspension or termination of employment. Upon request, we will provide you with a copy of our Code.

### **Investing for Accounts:**

Conflicts of interest may arise for us in connection with certain transactions involving investments by certain of our Accounts in Investment Funds and investments by other Accounts advised by us, or sponsored or managed by Morgan Stanley, in the same Investment Funds. Conflicts of interest may also arise in connection with investments in certain Funds by other Funds advised or managed by us or any of our affiliates. Such conflicts could arise, for example, with respect to the timing, structuring and terms of such investments and the disposition of them. We (or our affiliate) may determine that an investment in an Investment Fund is appropriate for a particular client or for us or our officers, directors, principals, members or employees, but that such investment is not appropriate for certain of our other Funds. Situations also may arise in which we, one of our affiliates, or the clients of either, have made investments that would have been suitable for investment by certain of our Funds but, for various reasons, were not pursued by, or available to, such Funds. Our investment activities, our affiliates and any of the respective officers, directors, principals, members or employees may disadvantage some certain Funds in some situations if, among other reasons, the investment activities limit a Fund's ability to invest in a particular Investment Fund.

We recommend that clients invest in Funds for which we act as investment adviser. Prior to subscribing for interests in a Fund advised by us, investors receive information relating to potential conflicts of interest between the activities of the Fund and our business activities, and those of our affiliates, or clients that may have a financial interest in the securities in which the Fund invests.

From time to time, we may manage an Account that contains Morgan Stanley "seed capital" and in those instances we may buy Investment Funds for the seed capital account along with our other Accounts. This may present a conflict of interest if an Investment Fund has limited investment capacity and is unable to accommodate our investment in the amount we request for all applicable Accounts. In order to ensure that each Account is treated in a fair and equitable manner, we have adopted trade allocation procedures that we believe are reasonably designed to address these and other conflicts of interest.

## **Item 12 – Brokerage Practices**

Due to the nature of the investments we make, broker-dealers are not used for client transactions. However, in limited circumstances, we use independent brokers who offer asset purchase opportunities to us in certain secondary transactions. In these instances, we allocate all fees and/or commissions related thereto *pro rata* to the participating Accounts. Fees and/or commissions payable are negotiated by us. We determine the fees and/or commissions to be customary in the market place and are typical with these types of transactions. Due to the nature of the investments we make, we do not enter into soft dollar arrangements.

### **Item 13 – Review of Accounts**

Our review process for our Accounts is conducted by the appropriate (Fund of Hedge Funds, Private Equity Fund of Funds, Private Equity Real Estate Fund of Funds) investment committee. Each investment committee is comprised of the portfolio managers of the respective investment team. Our Account review process is not directed toward a short-term decision to dispose of investments, but to (1) oversee the performance of the Investment Funds and/or (2) monitor securities and other financial instruments in which the Accounts have invested.

If you are an investor in our Funds, reports are generally sent monthly (in the case of the funds of hedge funds) and quarterly or semi-annually (in the case of the private equity and private equity real estate fund of funds). Among other things, these reports may consist of monthly, quarterly or semi-annual performance reports, unaudited financial reports and/or audited annual reports.

The nature and frequency of reports to our separate account clients are negotiated with the clients on an individual basis to suit the client's needs.

The Hedge Fund Advisory review process is performed by a portfolio management committee. Reviews of the customized portfolio accounts are conducted on a periodic basis.

Hedge Fund Advisory Services provides supplemental client reporting on a mutually agreed upon time frame as defined in the investment management agreement.

#### **Item 14 – Client Referrals and Other Compensation**

We may, from time to time, compensate certain affiliated and unrelated third parties for client referrals in accordance with Rule 206(4)-3 under the Advisers Act. The compensation paid to any such entity will typically consist of a cash payment stated as a percentage of your assets managed by us either directly pursuant to an investment management agreement or via an investment in a Fund, but may include cash payments determined in other ways. Any such compensation will be disclosed to you at the time of referral in accordance with Rule 206(4)-3.

We are also referred advisory clients by unaffiliated consultants that are retained by clients or prospective clients. While we do not make payments for solicitations or client referrals to these consultants, we may make cash payments to participate in conferences sponsored by such consultants to obtain information about industry trends and client investment needs. We may also purchase products or services from the consultant and/or their affiliates.

**Item 15 – Custody**

We are deemed to have “custody” of the assets for the Funds for which our affiliate serves as general partner. In those cases, the Funds will provide audited financial statements to investors on an annual basis in accordance with applicable law.

## **Item 16 – Investment Discretion**

For separate accounts that are managed by us on a discretionary basis, we typically receive authority from you at the outset of the relationship to select the identity and amount of investments to be bought or redeemed. This authority is granted in the investment management agreement. In all cases, however, such discretion is exercised in a manner consistent with the stated investment objectives for the separate account.

When selecting investments, we adhere to the investment policies, limitations and restrictions of each Account as set forth in the investment management agreement or relevant offering document, as applicable. Investment guidelines and restrictions and any amendments thereto must be provided to us in writing.

## **Item 17 – Voting *Client* Securities**

We, along with certain of our affiliates, have adopted a Proxy Voting Policy (the "Policy"). Note that due to the nature of the investments we make (generally, private equity funds), certain provisions of the Policy will not apply. For purposes of this section, "we" refers to us and our affiliates who participate in the Policy.

We will use our best efforts to vote proxies as part of our authority to manage, acquire and dispose of account assets. We will not vote proxies unless the investment management or investment advisory agreement explicitly authorizes us to vote proxies.

We will vote proxies in a prudent and diligent manner and in your best interests consistent with the objective of maximizing long-term investment returns ("Client Proxy Standard"). In certain situations, you may ask us to vote according to your own proxy voting policy. In those situations, we will comply with your policy.

The Policy addresses a broad range of issues, and provides general voting parameters on proposals that arise most frequently. However, details of specific proposals vary, and those details affect particular voting decisions, as do factors specific to a given company. We endeavor to integrate governance and proxy voting policy with investment goals, using the vote to encourage portfolio companies to enhance long-term shareholder value and to provide a high standard of transparency such that equity markets can value corporate assets appropriately.

We seek to follow the Client Proxy Standard for each client. At times, this may result in split votes, for example when different clients have varying economic interests in the outcome of a particular voting matter (such as a case in which varied ownership interests in two companies involved in a merger result in different stakes in the outcome). We also may split votes at times based on differing views of portfolio managers.

We may abstain on matters for which disclosure is inadequate. We usually support routine management proposals except for certain "other business" and "meeting adjournment" proposals.

Votes on director nominees can involve balancing a variety of consideration, including those related to board and board committee independence, term length, whether nominees may be overcommitted, director attendance and diligence, director skills and the balance of expertise on the board, financial knowledge and experience, executive and director remuneration practices, and board responsiveness. We consider withholding support from or voting against a nominee if we believe a direct conflict exists between the interests of the nominee and the public shareholders, including failure to meet fiduciary standards of care and/or loyalty. We may oppose directors where we conclude that actions of directors are unlawful, unethical or negligent. We consider opposing individual board members or an entire slate if we believe the board is entrenched and/or dealing inadequately with performance problems; if we believe the board is acting with insufficient independence between the board and management; or if we believe the board has not been sufficiently forthcoming with information on key governance or other material matters.

We examine a range of issues—including proxy contests and proposals relating to mergers, acquisitions and other special corporate transactions--on a case-by-case basis in the interests of each fund or other account. We support substantial management/board discretion on capital structure, but within limits that take into consideration articulated uses of capital, existence of

preemptive rights, and certain shareholder protections provided by market rules and practices. We are generally supportive of reasonable shareholder rights.

We vote on advisory votes on executive pay on a case-by-case basis. We generally support equity compensation plans if we view potential dilution/cost and burn rates as reasonable, and if plan provisions sufficiently protect shareholder interests. We also support appropriately structured bonus and employee stock purchase plans.

We consider social and environmental shareholder proposals on a case-by-case basis.

**Process:** The Proxy Review Committee (the “Committee”) has overall responsibility for the Policy. Because proxy voting is an investment responsibility and impacts shareholder value, and because of their knowledge of companies and markets, portfolio managers and other members of investment staff play a key role in proxy voting, although the Committee has final authority over proxy votes.

The Committee meets at least quarterly, and reviews and considers changes to the Policy at least annually. If the Director of Corporate Governance determines that an issue raises a material conflict of interest, the Director may request a special committee to review, and recommend a course of action with respect to, the conflict(s) in question.

**Further Information:** Upon request and without charge, a Morgan Stanley AIP Portfolio Specialist will provide you with our proxy voting record applicable to the Partnership in which you are invested.

**Item 18 – Financial Information**

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to you.. In addition, we have not been the subject of a bankruptcy proceeding at any time during the past ten years.

**Item 19 – Requirement for State-Registered Advisers**

We have no information applicable to this Item.