

**Part 2A of Form ADV: Firm Brochure**

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Early Adopter Fund Manager Inc.

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March 30, 2012

This Brochure provides information about the qualifications and business practices of Early Adopter Fund Manager Inc. (the “Adviser”). If you have any questions about the contents of this Brochure, please contact Morgan Stanley Merchant Banking Investor Services at (212) 761-7645 or email pe [invrelations@morganstanley.com](mailto:invrelations@morganstanley.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

The Adviser 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 the Adviser also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

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## **Item 2 – Material Changes**

We provide this brochure to our clients as well as limited partners of the pooled investment vehicles that we advise (“Limited Partners”).

There are no material changes since the last annual update of this Brochure, which was dated March 31, 2011. We will provide clients and Limited Partners with a new Brochure as necessary based on material changes or new information, at any time, without charge upon request.

Our Brochure may be requested by contacting Morgan Stanley Merchant Banking Investor Services at (212) 761-7645 or email [pe\\_invrelationsr@morganstanley.com](mailto:pe_invrelationsr@morganstanley.com)

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#### **Item 4 – Advisory Business**

Early Adopter Fund Manager Inc. (the “Adviser”) was formed in 1999 and registered with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) in 1999.

The Adviser is a wholly-owned direct subsidiary of Morgan Stanley.

As of December 31, 2011, the Adviser had approximately \$1,800,000 of assets under management, all of which are managed on a discretionary basis.

The Adviser’s primary business is the management of pooled investment vehicles that pursue the investment strategies described below.

The Adviser is the managing member of Early Adopter Fund, LLC, a Delaware limited liability company (the “Fund”), which was formed for the purpose of investing in a separate fund (the “Separate Fund”), which is an independently managed fund, which, in turn, will invest directly in technology companies involved in advanced computing. The Adviser’s advisory services consist of monitoring the activities of the Separate Fund, participating in meetings with other Separate Fund members and providing any advice required by the Fund from time to time. The Adviser has the discretion to accept or reject participation in individual investments made by the Separate Fund.

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## **Item 5 – Fees and Compensation**

### **Management Fees**

The Fund does not charge the Members a management fee.

### **Carried Interest**

The Adviser is generally entitled to carried interest with respect to each Member equal to 10% of such Member's profits from the Fund's investment in the Separate Fund. The carried interest is earned on an investment-by-investment basis and is not payable until proceeds are realized from an investment.

Because the Fund is investing in the Separate Fund, which represents a long-term private equity investment, granting a member the right to short-term redemptions could adversely affect the objectives of the Fund and the interests of all investors. Accordingly, as fully described in the limited liability company agreement, no member has the right to (i) receive any refund of any performance fee or (ii) terminate its obligations under the limited liability company agreement, or otherwise withdraw from the Fund, prior to the Fund's termination.

### **Fees and Expenses**

In addition to the carried interest, pursuant to the limited liability company agreement, each member generally bears its own expenses, including certain investment expenses, all legal, accounting, audit, custodial and other professional fees and services relating to services rendered to the Fund; certain ongoing operation and administration expenses; all litigation-related and indemnification expenses; and organizational expenses.

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

In some cases, the Adviser has entered into performance fee arrangements with qualified clients; such fees are subject to individualized negotiation with each such client. The Adviser will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Advisers Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. Performance-based fee arrangements may create an incentive for the Adviser to recommend investments that may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. The Adviser has designed and implemented procedures to ensure that all clients are treated fairly and equitably, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

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## **Item 7 – Types of Clients**

The Adviser provides portfolio management services to pooled investment vehicles. These pooled investment vehicles are not subject to regulation under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Generally, Fund investors must invest a minimum of \$2 million up to a maximum of \$5 million. The Adviser reserves the right to waive this requirement in its discretion. In addition, interests in the Fund may be purchased only by certain eligible investors who are “accredited investors” as defined in Regulation D of the Securities Act of 1933, as amended, and “qualified purchasers” for purposes of Section 3(c)(7) of the Investment Company Act.

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

### **Investment Strategies and Methods of Analysis**

The Fund’s investment objective is to achieve attractive risk-adjusted returns through investing in the Separate Fund. From time to time the Adviser may cause the Fund to invest cash held by the Fund in temporary investments or to employ hedging techniques to reduce the risk of adverse interest rate, currency, credit or security movement on investments.

### **Certain Risks Related to Investment Strategy**

Investing in securities involves risk of loss that clients should be prepared to bear.

Our investment strategy entails a high degree of risk and is suitable only for sophisticated investors who fully understand and are capable of bearing the risks of an investment in the Fund. The risks summarized below are described in greater detail in the private placement memoranda provided to Limited Partners. In addition, there are other risks (in addition to risks related to our investment strategy) associated with investing in the Fund, which are described in the private placement memoranda.

- potential loss of invested capital;
- reliance on expertise of Morgan Stanley investment professionals;
- highly competitive markets and prevailing regulatory or political climates;
- illiquidity of investments;
- little or no current return on investments prior to their disposition;
- significant degree of financial and/or business risk;
- lack of diversification;
- volatility of the global fixed income and equity markets;
- lack of protection by financial covenants in debt investments;
- leverage at the level of the Fund and/or portfolio companies;
- adverse political developments and regulation in foreign countries;
- potential inability to protect the value of minority equity investments;
- reliance on portfolio company management;
- exposure to portfolio company and related party claims;
- potential liabilities related to portfolio company restructurings;
- use of hedging techniques;

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- changes in general economic conditions and global economic and political events;
  - potential liquidating distributions of restricted or otherwise illiquid securities to investors;
  - limitations on transfer and withdrawal;
  - risks associated with making non-U.S. investments and minority investments;
  - risks associated with the realization and disposition of investments;
  - catastrophic and other force majeure events; and
  - legal and regulatory risks, including burdensome regulation by one or more governmental entities in specific industries

The General Partner and the Adviser also may face conflicts of interest in connection with managing the Fund. See Item 10 – Other Financial and Industry Activities.

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**Item 9 – Disciplinary Information**

The Adviser has no information applicable to this Item.

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## Item 10 – Other Financial Industry Activities and Affiliations

The Adviser expects to receive a variety of services from one or more of its broker-dealer affiliates, including Morgan Stanley & Co. LLC, a registered broker-dealer and a registered investment adviser, including, but not limited to, information regarding potential investment opportunities, financial advice and assistance in connection with the making, monitoring and disposing of investments and securities underwriting and brokerage services in connection with the sale of investments. Moreover, the Adviser shares certain officers and directors with related investment advisers that also manage affiliated private equity funds.

Furthermore, the Adviser or its affiliates from time to time create limited partnerships through which their clients may invest. For example, the General Partner may create a limited partnership that is the vehicle through which the Fund and/or Limited Partners of the Fund may make a portfolio investment.

The Adviser is the manager of the Fund and serves as the managing member of the Fund. The Adviser and/or certain related persons have and may continue to organize other partnerships and serve as the manager, general partner, or the managing member or general partner of the general partner, to these partnerships. In organizing these partnerships, the Adviser or a related person may be deemed to have been or to be soliciting clients. Moreover, the Adviser shares certain officers and directors with related investment advisers that also manage affiliated private equity funds.

Officers and employees of the Adviser may serve as directors of certain portfolio companies and, in that capacity, will be required to make decisions that they consider to be in the best interest of the portfolio company, which in certain circumstances may not be in the best interests of the Fund. Companies with which one or more members of the investment team or other employees of Morgan Stanley are involved may also engage in transactions that would be suitable for the Fund, but in which the Fund might be unable to invest. Accordingly, in these situations, there may be conflicts of interests between such person's duties as an officer or employee of the Adviser and such person's duties as a director of the portfolio company.

The Adviser may from time to time compensate certain of its employees, its affiliates' employees or any other placement agents in return for referrals of Limited Partners that have not previously invested in a fund managed by the Adviser. Any additional compensation paid specifically for such referrals will meet the requirements of Rule 206(4)-3 under the Advisers Act.

Finally, the Adviser and its affiliates face conflicts of interest resulting from the broad spectrum of activities in which Morgan Stanley engages, including those relating to:

- conflicts of interest between Morgan Stanley and investors in the Fund;
- conflicts of interest among Morgan Stanley's clients and investors in the Fund;
- financial incentives relating to carried interest arrangements;
- the possession by Morgan Stanley of material, non-public information regarding existing and prospective portfolio companies;
- the exercise by Morgan Stanley of its discretion to allocate investment opportunities, time and resources among its various businesses, clients and Morgan Stanley related persons;
- Morgan Stanley's investment management, retail brokerage, sales and trading and other businesses;

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- purchases or sales of assets by the Fund from or to Morgan Stanley or companies in which Morgan Stanley has an interest and other counterparty transactions;
  - Morgan Stanley's advisory relationships with clients that may compete with, or otherwise have interests that are adverse to, the interests of the Fund;
  - fees paid by the Fund and its portfolio companies to Morgan Stanley for investment banking or other services, which will not be shared with the Fund;
  - investments by Morgan Stanley in competitors or other counterparties of portfolio companies;
  - restrictions applicable to the Fund as a result of Morgan Stanley being subject to the Bank Holding Company Act of 1956, as amended, and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
  - Morgan Stanley acting as a broker for the Fund and another person on the other side of a transaction;
  - Morgan Stanley making, underwriting and syndicating loans;
  - Morgan Stanley acting as financial advisor to financially troubled portfolio companies; and
  - broker-dealers affiliated with Morgan Stanley acting as a placement agents or distributors with respect to the Fund.

A more detailed description of these conflicts appears in the private placement memoranda that are provided to Limited Partners.

#### **Conflict Identification and Mitigation**

Morgan Stanley and the Adviser 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. In addition, the Adviser addresses conflicts through disclosure to its investors and should any transactions presenting a potential conflict of interest actually arise, the Adviser 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. The Adviser may also choose to seek the approval of Limited Partners of the applicable Fund with respect to certain conflict situations or matters under the Advisers Act.

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

### **Code of Ethics**

The Adviser has adopted a Code of Ethics (the “Code”) pursuant to Rule 204A-1 under the Advisers Act, applicable to employees of the Adviser who are based in North America and Investment Committee members (“Access Persons”). Each Access Person 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 Access Persons are conducted in accordance with the highest possible standards and to prevent abuse, or even the appearance of abuse, by Access Persons with respect to their personal trading and other business activities.

The Code addresses the personal trading and investment activities of Access Persons, as more fully described below. In addition, the Code addresses standards of business conduct and fiduciary duties expected of Access Persons, including confidentiality obligations and restrictions on outside business activities and other conflicts of interest.

Violations of the Code are subject to sanction, including reprimand, demotion, suspension or termination of employment.

Copies of the Code are available upon request from the Adviser

### **Personal Trading and Investments**

The Code refers to a number of policies governing the securities trading and investing activities of employees for their own account. Such policies require all Access Persons to pre-clear trades for covered securities, as defined under the policies, in a personal account. A pre-clearance request will be denied if such securities are under consideration for investment, or have been acquired by, a client of the Adviser, or if the Adviser is in receipt of material non public information of the relevant company or if another conflict exists. Such policies also impose holding periods and reporting requirements for covered securities. In addition, investments in private placements or an employee’s participation in an outside business activity must be pre-approved by the employee’s designated manager and the Chief Compliance Officer.

### **Participation or Interest in Client Transactions**

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

On rare occasions, a Fund may sell a security or asset which another Fund, or an affiliate of the Adviser, wants to own. On these occasions, after extensive Firm and legal and compliance review and documentation, a sale of the security or asset from one Fund to another will be permitted.

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The Adviser may purchase and sell public and private investments and co-invest the assets of the clients alongside other funds and accounts managed by the Adviser or its affiliates in compliance with the requirements and conditions of rules, regulations, orders, or interpretations of the SEC, or no-action letters of the SEC Staff, and in accordance with Fund and client account governing documents. The Adviser has adopted an Allocation Policy and Procedures in order to ensure that each Client is treated in a fair and equitable manner. The following factors will be considered, as appropriate, in connection with allocation decisions:

- Investment guidelines, goals or restrictions of the client
- Capacity of the client
- Existing allocation to similar strategies and the diversification objectives of the client
- Tax, legal or regulatory considerations
- Rights of first offer in favor of a client
- With respect to co-investment allocations, whether the co-investor can provide value add to the operations of the business or provide future opportunities to the business of the client
- Other relevant business considerations

Please refer to Item 10 for a description of other financial industry activities and affiliations of Morgan Stanley, and a discussion of the material conflicts relating thereto.

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## **Item 12 – Brokerage Practices**

Due to the nature of the investments the Fund makes, broker-dealers are not generally used for transactions. However, when executing transactions on behalf of the Fund through a broker, dealer or underwriter, the Adviser's objective will be to obtain "best execution" (that is, the most favorable price and execution). The Adviser's effort to obtain best execution on any individual transaction depends substantially on its judgment, knowledge and experience in evaluating the counterparties', advisers' and service providers' ("Counterparties") reliability and capability based on previous and pending transactions effected by the broker-dealer for client accounts. Some of the factors considered by the Adviser in selecting a Counterparty include, among other things, execution quality and capabilities, including with regard to market making, commissions charged by and gross compensation paid to such Counterparty, and special knowledge of the Adviser's client's markets.

The Adviser will only consider engaging in a principal or cross transaction with Morgan Stanley or its affiliates on behalf of a fund or client to the extent permitted by applicable law. The Adviser has adopted policies and procedures to ensure compliance with Section 206(3) of the Advisers Act, where applicable.

A broker-dealer (including a Morgan Stanley affiliate) may act as agent for one or more clients in selling publicly traded securities simultaneously. In such a situation, transactions may, but are not required to, be bundled and clients will receive proceeds from sales based on average prices received, which may be lower than the price which could have been received had each client sold its securities separately from such broker-dealer's other clients.

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### **Item 13 – Review of Accounts**

The investments made by the Fund are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short term decision to dispose of securities. However, the Adviser's portfolio management staff closely monitors companies and assets in which the Fund invests and generally maintains an ongoing oversight position in such companies and assets (including, where relevant, representation on the board of directors of such companies). Reviews occur on a quarterly, and in some cases, monthly basis.

The General Partner reviews and approves all significant investment decisions.

The Adviser provides quarterly unaudited reports and annual audited reports to the Limited Partners of the Fund managed by the Adviser, which include, among other things, financial statements and descriptions of the investments of the Fund.

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

The Adviser may from time to time compensate certain of its employees, its affiliates' employees or any other placement agents in return for referrals of Limited Partners that have not previously invested in a fund managed by the Adviser. Any additional compensation paid specifically for such referrals will meet the requirements of Rule 206(4)-3 under the Advisers Act if applicable.

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## **Item 15 – Custody**

The Adviser is deemed to have custody of the Fund’s cash and securities by virtue of its relationship with the General Partners of the Fund. Each Limited Partner of a Fund receives the Fund’s audited financial statements prepared in accordance with generally accepted accounting principles within 120 days of the end of the Fund’s fiscal year.

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## **Item 16 – Investment Discretion**

As the manager of the Fund, the Adviser will have discretion to recommend to the General Partner, without consent of the Fund investors, the particular securities to be bought and sold, the broker or dealer (including a Morgan Stanley affiliate) to be used (if any) and the commission rates to be paid by the Fund in cases where a broker or dealer is used. The Adviser will provide investment advice to the Fund, subject to certain investment limitations regarding diversification and type of permitted investments as set forth in the applicable partnership agreement or the governing document. When executing transactions on behalf of the Fund through a broker, dealer or underwriter, the Adviser's objective will be to obtain the most favorable commission and the best price available on each transaction in light of the quality of execution provided. Consequently, brokers, dealers and underwriters are selected primarily on the basis of their execution, capability and trading expertise.

The Adviser generally receives discretionary authority from a fund at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. Such authority is provided in the Adviser's advisory contract with the relevant fund and/or under the terms of the operating agreement of the Fund. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the Fund. When selecting securities and determining amounts, the Adviser observes the investment policies, limitations and restrictions of the relevant fund.

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

Where the Adviser has accepted authority to vote proxies on behalf of a client, the Adviser will vote proxies in accordance with its policies and procedures in place for voting of proxies (the “Proxy Voting Policy”), which are designed to ensure compliance with Rule 206(4)-6 under the Advisers Act. Copies of the Proxy Voting Policy are available from the Adviser upon request. Under the Proxy Voting Policy the Adviser will vote proxies on behalf of the clients based on a determination of the best interest of the clients, consistent with the objective of maximizing long-term investment returns for the clients.

In many situations, a client is a party to a stockholder or a similar agreement. These agreements are entered into in the best interests of the clients, and may require the advisers to vote the other investors’ nominees to a board of directors or similar body, or require a vote in favor of a particular transaction. If this is the case, the Adviser will comply with the applicable clients’ contractual obligations.

Where no contract requires a client to vote for a specific outcome, the Proxy Voting Policy is designed to be responsive to the wide range of issues that may be subject to proxy vote, but is not exhaustive due to the variety of proxy voting issues that the Adviser may be required to consider.

The clients generally make a limited number of direct investments in portfolio companies that will become or are public. As a result, the Adviser will generally cast proxy votes on behalf of the clients with respect to a limited number of public portfolio companies.

The Adviser reserves the right to depart from the Proxy Voting Policy in order to avoid voting decisions that it believes may be contrary to the clients’ best interests. In addition, the Adviser may also abstain from voting if, based on factors such as expense or difficulty of exercise, it determines that the client’s interests are better served by an abstention.

The Adviser may be subject to conflicts of interest in the voting of proxies. A potential conflict of interest may occur where an adviser or any of its affiliates or their respective employees has a direct or indirect economic stake in the outcome of a proxy vote that is different from a client’s stake. When such a potential conflict arises between an Adviser and any of its affiliates or their respective employees on the one hand and one or more of the clients on the other, the matter is evaluated to determine whether an actual conflict exists. Where an actual conflict exists, the Adviser will take necessary and appropriate steps to address the conflict.

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## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosure about the Adviser’s financial condition. The Adviser is not aware of any financial condition that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.