

## Part 2A of Form ADV: Firm Brochure

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MS Capital Partners Adviser Inc.

as Adviser to

Morgan Stanley Credit Partners L.P. and Morgan Stanley Credit Partners II L.P.

1585 Broadway, 39<sup>th</sup> Floor

New York, NY 10036

212-761-7160

[http://www.morganstanley.com/institutional/invest\\_management/credit\\_partners/](http://www.morganstanley.com/institutional/invest_management/credit_partners/)

March 27, 2015

This Brochure provides information about the qualifications and business practices of MS Capital Partners Adviser Inc., as adviser to Morgan Stanley Credit Partners L.P. and Morgan Stanley Credit Partners II L.P. If you have any questions about the contents of this Brochure, please contact Morgan Stanley Merchant Banking & Real Estate Investor Services at (212) 761-7160 or email [mscreditinvestor@morganstanley.com](mailto:mscreditinvestor@morganstanley.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “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 that you may find useful in deciding to hire or retain an adviser (or invest in a fund or product advised by the 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 in Morgan Stanley Credit Partners L.P. and Morgan Stanley Credit Partners II L.P. and their respective related funds (collectively, the “Limited Partners”).

There have been no material changes since the last update of this Brochure, dated March 28, 2014. 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 & Real Estate Investor Services at (212) 761-7160 or email [mscreditinvestor@morganstanley.com](mailto:mscreditinvestor@morganstanley.com).

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#### **Item 4 – Advisory Business**

MS Capital Partners Adviser Inc. (the “Adviser”) was formed in 2008 and registered with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) in 2008.

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

As of December 31, 2014, the Adviser had approximately \$3,613,241,561 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, including Morgan Stanley Credit Partners, whose investment strategy is described below.

##### **Morgan Stanley Credit Partners**

MS Credit Partners GP, L.P. (the “MS Credit Fund I GP”) and MS Credit Partners II GP L.P. (the “MS Credit Fund II GP”, and together with MS Credit Fund I GP, the “General Partners”), each affiliates of the Adviser and each a Delaware limited partnership, are the respective general partners of Morgan Stanley Credit Partners L.P. (the “MS Credit Fund I”), and Morgan Stanley Credit Partners II L.P. (the “MS Credit Fund II”). MS Credit Fund I and the MS Credit Fund II shall, together with other related parallel, co-investment and feeder vehicles, be referenced herein as “Morgan Stanley Credit Partners” or the “Funds.”

The Funds’ investment objective is to seek to invest in debt instruments issued by corporate issuers in the context of debt refinancings, capital structure restructurings, traditional mezzanine issuances, debtor-in-possession (“DIP”) financings and similar and related investments (the “Primary Market Investments”). The Funds also have the flexibility to invest in a limited amount of senior secured leveraged loans, high yield bonds and similar instruments acquired in the secondary markets (the “Secondary Market Investments”). The Funds intend to invest in entities globally with a primary focus on North America and Western Europe.

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## **Item 5 – Fees and Compensation**

Certain fees and other compensation described herein are subject to negotiation with investors.

- **MS Credit Fund I**

### **Management Fees**

The Adviser generally receives an annual management fee (the “MS Credit Fund I Management Fee”) from MS Credit Fund I equal to 1.0% of invested capital. The MS Credit Fund I Management Fee is subject to reduction as provided in the paragraph below. The MS Credit Fund I Management Fee is funded by the limited partners of MS Credit Fund I (the “MS Credit Fund I Limited Partners”) and is payable quarterly in arrears. Upon termination of the management agreement between the Adviser and MS Credit Fund I, the Adviser shall repay to MS Credit Fund I or to a replacement manager, as directed by the MS Credit Fund I GP, the unearned portion (computed on the basis of the number of days elapsed), if any, of the MS Credit Fund I Management Fees previously paid to the Adviser. Certain of the employee and other co-investment vehicles, however, pay no or a significantly reduced MS Credit Fund I Management Fee.

The Adviser and its professionals may charge portfolio companies transaction fees, sponsor fees, monitoring fees, advisory fees, directors’ fees, commitment fees, closing fees, amendment fees, break up fees and other similar fees. An amount equal to 80% of MS Credit Fund I’s allocable portion of all such fees (other than fees received in respect of certain investment banking, advisory and other customary activities and services engaged in by Morgan Stanley in its role as an investment banking and brokerage firm) paid by portfolio companies to the Adviser, the MS Credit Fund I GP or any of the investment professionals dedicated to MS Credit Fund I (as described in the private placement memorandum of MS Credit Fund I), net of any unreimbursed related expenses incurred by the Adviser or its affiliates or representatives in connection with MS Credit Fund I’s holding or disposition of a portfolio company or the termination of unconsummated transactions, will generally be applied to reduce the MS Credit Fund I Management Fee otherwise payable to the Adviser by the Limited Partners.

Fees may be deducted from MS Credit Fund I’s assets as and to the extent set forth in the limited partnership agreements of MS Credit Fund I.

### **Carried Interest**

The MS Credit Fund I GP is generally entitled to carried interest with respect to each MS Credit Fund I Limited Partner equal to 15% of such MS Credit Fund I Limited Partner’s profits from each MS Credit Fund I investment, subject to satisfaction of an 8% internal rate of return, compounded annually, on the invested and unreturned capital of such investment (in the case of dividends, interest and other current income for such investment) and previously realized investments (in the case of investment disposition proceeds).

Such carried interest is earned on an investment-by-investment basis and is not payable until current income is received or disposition proceeds are realized from an investment. Certain of the employee and other co-investment vehicles, however, are subject to no or a significantly reduced carried interest.

### **Expenses**

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MS Credit Fund I may also bear certain out-of-pocket expenses incurred by the Adviser and/or its affiliates in connection with the services provided to MS Credit Fund I. The payment of such expenses by MS Credit Fund I does not represent a source of profit for the Adviser, but rather is a reimbursement of actual costs initially paid by the Adviser (or its affiliates) and subsequently passed through to MS Credit Fund I. The most common expenses include (i) expenses incurred in connection with identifying, evaluating, structuring and negotiating any potential MS Credit Fund I investment and the acquisition, management, holding, sale, proposed sale or valuation of any MS Credit Fund I investments (including meals, entertainment and travel expenses incurred by Morgan Stanley and its employees in connection with identifying, negotiating, executing or managing consummated MS Credit Fund I investments or unconsummated MS Credit Fund I investments); and (ii) ordinary administrative expenses, including fees of auditors, attorneys, appraisers and other professionals auditing, accounting, banking and consulting expenses (including expenses paid to the Adviser or to any of its affiliates for services rendered on an arms-length basis in connection with MS Credit Fund I's affairs). Item 12 further describes the factors that the Adviser considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

### **Placement Agent Fees**

With respect to MS Credit Fund I, broker-dealers who are the Adviser's affiliates have and will as the case may be, act as placement agents to assist in the placement of MS Credit Fund I's interests. Any placement fee payable by an investor will be in addition to that investor's 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 the MS Credit Fund I GP and/or the Adviser.

The private placement memorandum for MS Credit Fund I includes further details on fees and compensation and related matters.

- **MS Credit Fund II**

### **Management Fees**

The Adviser will generally receive an annual management fee from MS Credit Fund II (the "MS Credit Fund II Management Fee,") equal to (i) during the investment period, 0.80% of the capital commitment of the Limited Partners of MS Credit Fund II; and (ii) after the investment period, 1.0% of invested capital. The MS Credit Fund II Management Fee may be subject to reduction as provided in the paragraph below. The MS Credit Fund II Management Fee is funded by the MS Credit Fund II Limited Partners and is payable quarterly in advance. Upon termination of the management agreement between the Adviser and MS Credit Fund II, the Adviser shall repay to MS Credit Fund II or to a replacement manager, as directed by the MS Credit Fund II GP, the unearned portion (computed on the basis of the number of days elapsed), if any, of the MS Credit Fund II Management Fee previously paid to the Adviser. Certain of the employee and other co-investment vehicles, however, may pay no or a significantly reduced MS Credit Fund II Management Fee.

The Adviser and its professionals may charge portfolio companies transaction fees, sponsor fees, monitoring

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fees, advisory fees, directors' fees, commitment fees, closing fees, amendment fees, break up fees and other similar fees. An amount equal to 100% of MS Credit Fund II's allocable portion of all such fees (other than fees received in respect of certain investment banking, advisory and other customary activities and services engaged in by Morgan Stanley in its role as an investment banking and brokerage firm) paid by portfolio companies to the Adviser, the MS Credit Fund II GP or any of the investment professionals dedicated to MS Credit Fund II (as described in the private placement memorandum of MS Credit Fund II), net of any unreimbursed related expenses incurred by the Adviser, the General Partner or its affiliates or representatives will generally be applied to reduce the Management Fees otherwise payable to the Adviser by the MS Credit Fund II Limited Partners.

Certain MS Credit Fund II Limited Partners will pay an administrative fee to the Adviser or an affiliate thereof in quarterly installments in arrears in an amount equal to: i) during the investment period, 0.20% *per annum* of such MS Credit Fund II Limited Partner's committed capital; and ii) after the investment period, 0.20% *per annum* of such MS Credit Fund II Limited Partner's invested capital with respect to the acquisition of portfolio investments that are held by MS Credit Fund II.

Fees may be deducted from MS Credit Fund II's assets as and to the extent set forth in the limited partnership agreements of MS Credit Fund II.

### **Carried Interest**

The MS Credit Fund II GP will be generally entitled to carried interest with respect to each MS Credit Fund II Limited Partner equal to 20% of such MS Credit Fund II Limited Partner's profits from each MS Credit Fund II investment, subject to satisfaction of an 8% internal rate of return, compounded annually, on the invested and unreturned capital of such investment (in the case of dividends, interest and other current income for such investment) and previously realized investments (in the case of investment disposition proceeds).

Such carried interest is earned on an investment-by-investment basis and is not payable until current income is received or disposition proceeds are realized from an investment. Certain of the employee and other co-investment vehicles, however, are subject to no or a significantly reduced carried interest.

### **Expenses**

MS Credit Fund II may also bear certain out-of-pocket expenses incurred by the Adviser and/or its affiliates in connection with the services provided to MS Credit Fund II. The payment of such expenses by MS Credit Fund II does not represent a source of profit for the Adviser, but rather is a reimbursement of actual costs initially paid by the Adviser (or its affiliates) and subsequently passed through to MS Credit Fund II. The most common expenses include (i) expenses incurred in connection with identifying, evaluating, structuring and negotiating any potential MS Credit Fund II investment and the acquisition, management, holding, sale, proposed sale or valuation of any MS Credit Fund II investments (including meals, entertainment and travel expenses incurred by Morgan Stanley and its employees in connection with identifying, negotiating, executing or managing consummated MS Credit Fund II investments or unconsummated MS Credit Fund II investments); and (ii) ordinary administrative expenses, including fees of auditors, attorneys, appraisers and other professionals auditing, accounting, banking and consulting expenses (including expenses paid to the Adviser or to any of its affiliates for services rendered on an arms-length basis in connection with MS

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Credit Fund II's affairs). Item 12 further describes the factors that the Adviser considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

**Placement Agent Fees**

With respect to MS Credit Fund II, broker-dealers who are our affiliates will as the case may be, act as placement agents to assist in the placement of MS Credit Fund II's interests. Any placement fee not payable by us will be in addition to an investor's 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 the MS Credit Fund II GP and/or the Adviser.

The private placement memorandum for MS Credit Fund II includes further details on fees and compensation and related matters.

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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. In addition, certain investment vehicles pay different levels of performance fees, which may create differing incentives for the Adviser when allocating investment opportunities. Specific parameters for allocations are included in the governing documents of the Funds to address the conflicts inherent in these differing incentives.

Please see Item 5 for further information regarding performance-based fees charged by the Adviser.

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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, the minimum investment amount varies among the investment vehicles that comprise the Funds. Morgan Stanley reserves the right to waive any minimum investment requirement in its discretion. In addition, Limited Partner interests in any of the Funds (“Interests”) 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.

In the case of the employee funds, interests have been offered and sold to investors who are “accredited investors” as defined in Regulation D of the Securities Act and in accordance with the requirements of an exemptive order under the Investment Company Act received by Morgan Stanley from the SEC in April 2000.

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

### **Investment Strategies**

The Funds' investment objective is to seek to invest primarily in debt instruments issued by corporate issuers in privately negotiated transactions ("Primary Market Investments"), and these investments will often have a small equity component. The Funds will also have the flexibility to invest in a limited number of Secondary Market Investments. The Funds intend to invest in entities globally with a primary focus on North America and Western Europe. From time to time the Adviser may cause the Funds to invest cash held by the Funds in temporary investments or to employ hedging techniques to reduce the risk of adverse interest rate, currency, credit or security movements on investments.

### **Methods of Analysis**

#### ***Investment Process***

The Adviser intends ultimately to construct a diversified portfolio of up to 20 to 25 Primary Market Investments.

The Funds generally seek to invest in companies that have leading market positions, generate strong free cash flow, have high barriers to entry, possess a strong liquidity position and have a proven management team. The management team of the Funds (the "Investment Team") employs a highly rigorous, credit centric and disciplined investment process based on the investment process developed and refined by Morgan Stanley Investment Management Merchant Banking ("MSIM Merchant Banking"), supported by proprietary qualitative and quantitative credit assessments and valuation metrics developed by the Investment Team. The investment process has three parts: (1) Preliminary Evaluation (as defined below), (2) Active Evaluation (as defined below) and (3) Investment Committee (as defined below) review, and employs the same highly rigorous, credit-centric and disciplined investment process to both Primary and Secondary Market Investments.

#### ***Preliminary Evaluation***

The Adviser expects that the Morgan Stanley network of resources and the Investment Team will generate a substantial number of primary investment opportunities annually across a wide variety of industries and geographic regions. The Investment Team expects that the Funds will consummate approximately four to seven of these investments per year and therefore the initial screening process is critical to allocating resources efficiently.

An initial review of each primary investment opportunity will be carried out by one of the senior members of the Investment Team to determine whether such opportunity is consistent with the Funds' investment objectives in terms of quality, valuation, portfolio weighting and the Fund having a competitive advantage (the "Preliminary Evaluation"). If the opportunity fits the Funds' investment objectives, the attractiveness of the opportunity is evaluated by the Investment Team. The Investment Team intends to utilize the extensive industry expertise resident in Morgan Stanley's Investment Management, Merchant Banking, Investment Banking, Sales and Trading, Commodities, and Equity and Fixed Income Research (subject in all cases to applicable regulations, policies and procedures) areas to assist in this preliminary evaluation. Access to these unique resources is expected to permit the Investment Team to assess each opportunity quickly and

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effectively and enables it to focus only on compelling opportunities.

If the members of the Investment Team conducting the initial review conclude that a Primary Market Investment opportunity meets the Funds' objectives, such investment opportunity will be discussed at the Investment Team's weekly meeting. At this meeting, the Investment Team will discuss the attendant credit risks and relative attractiveness of the investment opportunity and whether Morgan Stanley's resources and relationships can be utilized to give the Funds a meaningful competitive advantage. In general, the Investment Team will not pursue an opportunity unless it has determined that the Funds have such an advantage. Opportunities that gain consensus are advanced to active evaluation ("Active Evaluation").

### ***Active Evaluation***

Investment opportunities that emerge from the Preliminary Evaluation phase will be analyzed in detail. The Investment Team's Active Evaluation process consists of two stages. The first stage, the investment quality screen, consists of fundamental credit analysis, covenant and structure analysis and company valuation (the "Investment Quality Screen"). The Investment Quality Screen is intended to identify what the General Partners believe to be the highest-quality investment opportunities. The second stage, the investment risk-reward screen, consists of absolute return, relative return and capital structure assessments (the "Investment Risk-Reward Screen"). The Investment Risk-Reward Screen is intended to identify what are believed to be the most attractive risk-adjusted investments.

### ***Investment Quality Screen***

The first phase of the Investment Quality Screen entails comprehensive due diligence on each company, which will likely leverage the extensive industry expertise resident in Morgan Stanley's Investment Management, Merchant Banking, Investment Banking, Sales and Trading, Commodities, and Equity and Fixed Income Research (subject in all cases to applicable regulations, policies and procedures) areas to assist in this due diligence process. Diligence typically involves meeting with company management and, if applicable, the financial sponsor, to achieve a comprehensive understanding of the company's competitive positioning, as well as the risks associated with the proposed investment. In addition, the Investment Team performs a detailed analysis of the company's liquidity position, including its ability to access its revolving credit facility.

The second phase of the Investment Quality Screen consists of an assessment of the company's corporate structure and debt covenants. The objective of this phase is to understand a target company's ability to incur additional debt, undertake credit dilutive actions, flexibility under financial covenants and complexity of corporate structure. For the Primary Market Investments, this analysis would ensure that the Funds' investment has adequate protections and assurances as to the target company's access to liquidity. For the Secondary Market Investments, this analysis would help crystallize the optimal entry point within a target company's capital structure. The Adviser believes that the Investment Team is well positioned to conduct this analysis given its extensive capital markets experience. As part of its covenant and capital structure analysis, the Investment Team will retain outside counsel to assist with such analysis.

The third phase of the Investment Quality Screen entails a comprehensive valuation analysis of each target company performed by the Investment Team. The Investment Team employs appropriate valuation methodologies and leverages the methodologies developed and refined by MSIM Merchant Banking. This

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analysis is intended to provide further insight into implied asset protection and risk and reward tradeoffs.

### ***Investment Risk-Reward Screen***

Once an opportunity has passed the Investment Quality Screen, the Investment Team will conduct a risk-reward assessment of the opportunity. In this assessment, the Investment Team will analyze projected absolute returns of the investment over a given horizon, its relative value versus comparable investment opportunities and make a capital structure assessment. The capital structure assessment includes evaluating the risk-return profiles of various parts of a company's capital structure and determining the optimal entry point. The culmination of this two-stage approach leads to a recommendation by the Investment Team to the General Partner's investment committee (the "Investment Committee").

### ***Investment Committee Review***

The Investment Committee consists of senior Investment Team professionals and senior executives of Morgan Stanley. Investment recommendations made by the Investment Team will be reviewed by the Investment Committee. The Investment Team may make multiple presentations to the Investment Committee through various stages in the investment process, leading up to its final recommendation. For every proposed investment, the Investment Team will submit to the Investment Committee a comprehensive, detailed and proprietary credit memo (the "Credit Memo") expressing its investment view and documenting its due diligence. All investment opportunities will be presented to the Investment Committee as transaction opportunities arise.

### ***Portfolio Monitoring***

The Investment Team seeks to monitor actively all portfolio investments and provide the Investment Committee periodic updates on operating and financial performance, new investment recommendations and portfolio composition. The Investment Team will also provide the Investment Committee with periodic updates on portfolio company financial performance compared to the investment base case set forth in the initial Credit Memo. Further, the Investment Team will provide the Investment Committee periodic recommendations with respect to overall portfolio construction, including industry weightings, capital structure allocations, pace of investing and geographic concentrations. The Investment Committee will review such recommendations and will make recommendations to the Investment Team.

As part of its portfolio monitoring, the Investment Team will engage in formal and informal dialogue with portfolio company management teams, financial sponsors, suppliers and customers, as appropriate, through conversations facilitated, in part, by the Firm's global network in an attempt to give the Fund an ongoing advantage relative to other investors.

As part of a global investment bank, the Adviser expects to have the ability to take on a cooperative role in providing ongoing support to portfolio companies, including full access to the relationships and resources of Morgan Stanley. This should help facilitate potential refinancing or exit opportunities for the Funds' portfolio companies.

### ***Risk of Loss - Certain Risks Related to Investment Strategy***

Investing in securities involves risk of loss that clients should be prepared to bear. The Adviser and the

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General Partners cannot provide assurance that it will be able to generate any level of returns for investors. 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 Funds.

The following list of risk factors does not purport to be a complete list or explanation of the risks involved in an investment in the Funds. 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 Funds, which are described in the private placement memoranda. You may also request an updated explanation of risk factors by contacting Morgan Stanley Merchant Banking & Real Estate Investor Services as described above.

- reliance on expertise of Morgan Stanley investment professionals;
- highly competitive markets and prevailing regulatory or political climates;
- illiquidity of investments;
- lack of diversification;
- unsuccessful refinancing or syndication;
- adverse political developments and regulation in foreign countries;
- fluctuation in exchange rates;
- lack of legal or management control and limited legal recourse;
- high rates of inflation and deflation;
- operational clearance and settlement problems in securities markets;
- counterparty default;
- intermediary default, insolvency and fraud;
- control person liability and inability to protect investment if a controlling interest is not obtained;
- reliance on portfolio company management;
- use of hedging techniques;
- significant degree of financial and/or business risk;
- catastrophic and other force majeure events;
- burdensome regulation by one or more governmental entities in specific industries;
- lack of protection by financial covenants in debt investments;
- recovery cost of defaulted or non-performing debt investments;
- potential liabilities related to portfolio company restructurings and workout negotiations;

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- inability to generate sufficient cash to service debt obligations at the portfolio company level;
  - credit and market risks related to debt instruments;
  - inability to protect mezzanine and subordinated debt investments;
  - no assurance of sufficient collateral in connection with secured loans;
  - inability to control governing documents of debt instruments;
  - no assurance of recovery on defaulted second-lien loans;
  - lack of certain financial covenants in covenant-lite first-lien loans;
  - investments in lower rated or comparable non-rated securities;
  - use of options and warrants;
  - participation in credit default swaps;
  - no assurance of realization upon a participation or derivative interest;
  - issuer inability to make principal and interest payments on outstanding debt obligations when due;
  - potential claims of lender liability and equitable subordination;
  - cybersecurity risks;
  - investments in publicly-traded securities; and
  - adverse foreign laws related to restructurings.

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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**

### **Introduction**

As a diversified global financial services firm, Morgan Stanley engages in a broad spectrum of activities including financial advisory services, investment management activities, lending, commercial banking, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication and other activities. Investors should be aware that potential and actual conflicts of interest between Morgan Stanley or any Affiliated Investment Account (as defined below), on the one hand, and the Funds, on the other hand, may exist and others may arise in connection with the operation of the Funds. Morgan Stanley's employees may also have interests separate from those of Morgan Stanley and the Funds. The discussion below enumerates certain actual, apparent and potential conflicts of interest. The Adviser can give no assurance that conflicts of interest will be resolved in favor of the Funds' investors, and, in fact, they may not be.

The following discussion enumerates certain potential conflicts of interest, which should be carefully evaluated before making an investment in the Fund.

### **Broker-Dealer Registration**

Morgan Stanley & Co. LLC is a registered broker-dealer. Certain of the Adviser's management persons are registered representatives of Morgan Stanley & Co. LLC, where it is necessary or appropriate to perform their responsibilities.

### **Other Material Relationships with Affiliated Entities**

- Broker-Dealer, Municipal Securities Dealer, Government Securities Dealer or Broker

To the extent permitted by applicable law, the Adviser, the Funds or its portfolio companies may use the securities, futures execution, underwriting or other services offered by Morgan Stanley & Co. LLC or other affiliates. Please see Item 12 for more information about the Adviser's practices concerning using a Morgan Stanley affiliate as a broker.

- Other Advisory Affiliates

The Adviser is part of a group of investment advisers within the Morgan Stanley Investment Management business, including Morgan Stanley Investment Management Inc, Morgan Stanley Investment Management Limited, Morgan Stanley AIP GP LP, Morgan Stanley Asset Management Private Limited, Morgan Stanley Real Estate Advisor, Inc., MSDW Real Estate Special Situations II Manager LLC, Morgan Stanley Infrastructure Partners Inc., Morgan Stanley Private Equity Asia, Inc., MSREF III, Inc., MSREF IV, L.L.C., MSREF V, L.L.C., MSREF Real Estate Advisor, Inc., and MSRESS III Manager, L.L.C.

The Adviser, in its discretion, may delegate all or a portion of its advisory or other functions to any affiliate that is registered with the SEC as an investment adviser and may receive a variety of services from such affiliates, including gathering information about 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. The Adviser shares certain officers and directors with related investment advisers that also manage affiliated private equity funds.

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To the extent that the Adviser delegates its advisory or other functions to such investment advisers, a copy of the brochure of each such affiliate is available on the SEC's website and will be provided to investors in the Funds upon request.

- Affiliates Acting as Fundraising Broker-Dealers

Broker-dealers that are affiliates of Morgan Stanley may act as placement agents (the "Placement Agents") to assist in the placement of interests to certain Limited Partners (such Limited Partners, the "Solicited Partners"). The potential for the Placement Agents to receive compensation in connection with a Solicited Partner's investment in the Funds present a potential conflict of interest in recommending that such Solicited Partner purchase interests.

The prospect of receiving, or the receipt of, additional compensation by the Placement Agents may provide such Placement Agents and their salespersons with an incentive to favor sales of interests in funds whose affiliates make similar compensation available over sales of interests in funds (or other fund investments) with respect to which the Placement Agent does not receive additional compensation, or receives lower levels of additional compensation. Prospective investors should take such payment arrangements into account when considering and evaluating any recommendations related to the interests. Morgan Stanley employees involved in the marketing and placement of the interests are not acting as tax, financial, legal or accounting advisors to potential investors in connection with the offering of the interests. Potential investors must independently evaluate the offering and make their own investment decisions.

The Adviser and the Funds may use registered representatives and/or employees of its affiliates to conduct solicitation activities in relation to new or oncoming limited partners to the Funds or act as placement agents

- Affiliates Acting as Investment Bankers

In the ordinary course of its business, Morgan Stanley performs full-service investment banking and financial services and therefore engages in activities where Morgan Stanley's interests or the interests of its clients may conflict with the interests of the investors, notwithstanding Morgan Stanley's direct or indirect participation in the investments of the Funds.

From time to time, Morgan Stanley's investment banking professionals may introduce to one or more of the Funds a client that requires equity to complete an acquisition transaction. If the relevant Fund pursues the resulting investment, Morgan Stanley could have a conflict in its representation of the client over the price and terms of the Fund's investment.

Morgan Stanley has long-term relationships with a significant number of institutions and corporations and their advisors. In determining whether to pursue a particular transaction on behalf of the Funds, these relationships will be considered by Morgan Stanley and there may be certain potential transactions that will or will not be pursued on behalf of the Funds in view of such relationships

In addition, Morgan Stanley could provide investment banking services to competitors of companies in which the Funds invest, in which case it will take appropriate steps to safeguard the confidential information of each investment banking client. Morgan Stanley is under no obligation to share and may not share any such information with the Funds or the Adviser. Such activities may present Morgan Stanley with a conflict

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of interest vis-à-vis the Funds' portfolio entities and may also result in a conflict with respect to the allocation of investment banking resources to portfolio entities.

- Other Limited Partnership Investment Vehicles or Funds
- General; Carried Interests

The Adviser is the manager of the Funds and serves as the managing member of the Funds. 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 investors.

The General Partners' carried interest may create an incentive for the General Partners to make more speculative investments for the Funds than they would otherwise make in the absence of such performance-based distributions. Furthermore, investments made with third parties in joint ventures or other entities may involve carried interests and/or other fees payable to such third party partners of co-investors, which could also create an incentive for such parties to take risks with respect to such investments. In addition, the method of calculating the carried interest may result in conflicts of interest between the General Partners, on the one hand, and the investors, on the other hand, with respect to the management and disposition of investments. For example, the General Partners will value any securities being distributed in-kind to investors in order to calculate the carried interest. If the valuations conducted by the General Partners are incorrect, the amount of payment of carried interest could be incorrect.

- Morgan Stanley Investments and Affiliated Investment Accounts

Morgan Stanley may advise clients and has sponsored, managed or advised other alternative investment funds and investment programs, accounts and businesses (collectively, together with any new or successor funds, programs, accounts or businesses, the "Affiliated Investment Accounts") that have or will have active investment programs that are substantially similar to those of the Funds. Morgan Stanley may also from time to time create new or successor Affiliated Investment Accounts that may compete with the Funds and may present similar conflicts of interest. Certain members of the Investment Team and the investment committee may make investment decisions on behalf of both Morgan Stanley and such Affiliated Investment Accounts, including Affiliated Investment Accounts with investment objectives that overlap with those of the Funds. In addition, certain Affiliated Investment Accounts may make investments similar to those that may be made by the Funds even if they are not solely focused on such investments.

Morgan Stanley related persons (including Morgan Stanley's trading and principal investing businesses) will have no obligation to offer to the Funds investment opportunities that are excluded from any otherwise existing contractual obligation. In such situations, a Morgan Stanley related person may pursue and make the investment for its own account. When deciding how to allocate such opportunities, Morgan Stanley will exercise its discretion and may consider its own financial interests or the interests of other clients or affiliates of Morgan Stanley ahead of those of the Funds.

In some cases, Morgan Stanley or an Affiliated Investment Account may invite one of the Funds to co-invest with it or the General Partners may invite Morgan Stanley or an Affiliated Investment Account to co-invest with a Fund, in either the same or different tiers of a portfolio entity's capital structure or in an

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affiliate of such portfolio entity. To the extent the relevant Fund holds investments in the same portfolio entity or in an affiliate thereof that are different (including with respect to their relative seniority) than those held by Morgan Stanley or an Affiliated Investment Account, the Adviser and Morgan Stanley may be presented with decisions when the interests of the two co-investors are in conflict.

- Management Persons

Officers and employees supporting the Adviser may also 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 Funds. 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 Funds, but in which the Funds 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.

Certain of the Adviser's management persons may also hold positions with the affiliates listed above. In these positions, those management persons of the Adviser may have some responsibility with respect to the business of these affiliates and the compensation of these management persons may be based, in part, upon the profitability of other affiliates. Consequently, in carrying out their roles with the Adviser or the Funds and these other entities, the management persons of the Adviser may be subject to the same or similar conflicts of interest that exist between the Adviser and these affiliates.

### **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 conflict and franchise committees, for potentially significant conflicts that cannot be resolved in the ordinary course or that otherwise require senior management review. In addition, the Adviser addresses conflicts through disclosure to its investors and should any transactions that present a potential conflict of interest actually arise, the Adviser may in certain situations choose to seek the approval of the investors, limited partners and/or advisory committee for the respective fund with respect to conflicts of interest or approvals required under the Advisers Act, including Section 206(3) and/or the relevant partnership agreement. The Adviser may also choose to seek the approval of Limited Partners of the applicable Funds 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 persons who are supervised by the Adviser or support the Adviser in providing investment advice to the Fund or their general partners or, and who have access to nonpublic information regarding the purchase or sale of securities, or who make securities recommendations to the Funds or their general partners, or who have access to such recommendations that are nonpublic (“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 accounts. 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 current or prospective investors invest in our Funds. Prior to subscribing for interests in a Fund, investors receive information relating to potential conflicts of interest between the activities of the relevant 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 relevant 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 may 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:

- Rights of first offer in favor of a client
- 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
- 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 Funds make, 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.

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 General Partners' Investment Committee reviews and approves all significant investment decisions. The members of the General Partners' investment committee are identified in the Supplements to the Adviser's Brochure in Form ADV Part 2B.

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

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

The Adviser may from time to time compensate placement agents (which may include certain of its affiliates) 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 Funds' cash and securities by virtue of its relationship with the General Partner of the Funds. 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 Funds, the Adviser will have discretion to recommend to the General Partners, without consent of the Funds' 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 Funds in cases where a broker or dealer is used. The Adviser will provide investment advice to the Funds, subject to certain investment limitations regarding diversification and type of permitted investments as set forth in the applicable partnership agreement. When executing transactions on behalf of the Funds 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 each fund and/or under the terms of the operating agreement of each fund. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular fund. When selecting securities and determining amounts, Adviser observes the investment policies, limitations and restrictions of the relevant fund for which it advises.

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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 similar agreement. These agreements are entered into in the best interests of the clients, and may require the Adviser 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 are or will become 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 the 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.