

Morgan Stanley Real Estate Advisor, Inc.

as Adviser to Prime Property Fund, LLC

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March 29, 2016

This Brochure provides information about the qualifications and business practices of Morgan Stanley Real Estate Advisor, Inc. (the “Adviser”). If you have any questions about the contents of this Brochure, please contact Morgan Stanley Merchant Banking & Real Estate Investing Investor Services at 212-761-7160 or email [msreinvestor@morganstanley.com](mailto:msreinvestor@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 liability company members of the pooled investment vehicles that we advise (“Limited Liability Members”). There have been no material changes since the last annual update of this Brochure, which was dated March 27, 2015.

We will provide clients and Limited Liability Members 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 Investing Investor Services at (212) 761-7160 or email [msreinvestor@morganstanley.com](mailto:msreinvestor@morganstanley.com).

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#### **Item 4 – Advisory Business**

The Adviser was formed in 2003 and registered with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in 2003.

The Adviser is a wholly owned, direct subsidiary of Morgan Stanley (together with its affiliates, “Morgan Stanley”).

As of December 31, 2015, the Adviser had approximately \$19,191,674,785 all of which are managed on a discretionary basis.<sup>1</sup>

The Adviser and its affiliates provide real estate-related investment advisory services to Prime Property Fund, LLC (the “Fund”) and to other commingled funds. These advisory services consist primarily of advising and making investment decisions with respect to the acquisition, development, asset management, financing and disposition of equity interests in real estate and real estate-related preferred equity and debt investments as well as various types of real estate-related securities (such as interests in real estate investment trusts and limited partnerships) and investment of short term securities and cash pending investment in equity real estate, or payments of indebtedness, or expenses or other obligations of its advisory clients (the “Clients”).

While the he Adviser does not currently provide advisory services to clients other than the Fund; it has, in the past, and may, in future, provide advisory services to such clients. In providing its services to Clients (which includes the Fund), the Adviser formulates such client’s investment objectives, directs and manages the investment and reinvestment of assets, and provides reports to investors. The Adviser manages the assets of each advisory client in accordance with the terms of the governing documents applicable to such client. The Adviser’s affiliation with Morgan Stanley, including Morgan Stanley Real Estate, the real estate investing business of Morgan Stanley, together with its subsidiaries and the supporting units dedicated to the real estate investing business (collectively, “MSREI”), provides it with access to valuable relationships, market knowledge, and financial and operating expertise. Morgan Stanley has been engaged in the real estate business since 1969 and the investing businesses employ professionals worldwide who have demonstrated a proven ability to source deals, structure complex transactions and identify multiple exit strategies which enhance the Fund’s ability to meet their return objectives. The activities of the Adviser described in this Brochure may be performed by the Adviser or by one of its affiliates that acts as a general partner, investment adviser or managing member of the Fund or Client.

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<sup>1</sup> Assets under management represents gross fair market value of the real estate assets managed by the Adviser on behalf of its clients, presented at direct ownership interest. Assets under management for certain minority interests represents the clients’ equity investment in the entity.

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## **Item 5 – Fees and Compensation**

Certain fees described herein are subject to negotiation with investors.

### **Prime Property Fund**

Under the current investment management fee arrangement as set forth in the Fund's Amended and Restated Limited Liability Company Agreement, as amended (the "Operating Agreement"), Prime Property Fund pays a management fee comprised of two separate components: (i) the Base Management Fee and (ii) the Incentive Management Fee. The Base Management Fee equals 84 basis points per annum of the net asset value ("NAV") (as of the beginning of each calendar quarter) payable quarterly in arrears. The Incentive Management Fee is earned on the basis of the net asset value of the Fund and growth of the net operating income of the investments held by a Client and ranges between 0 and 35 basis points of the Fund's average monthly net asset value over a calendar year. The Incentive Management Fee is payable at or promptly after the end of each calendar year and is equal to the aggregate amount of the Incentive Management Fee (including any negative amounts) accrued for each month of the calendar year.

The Adviser will bear its own costs of compensation of officers and employees and related overhead expenses, except that certain legal, accounting, insurance and other professional costs and expenses of the Adviser and its affiliates that would be normally provided by outside professionals may be reimbursed by the Fund.

Furthermore, the Fund may also bear certain out-of-pocket expenses incurred by the Adviser and/or its affiliates in connection with the services provided to the Fund. The payment of such expenses by the Fund 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 the Fund. These expenses include but are not limited to (i) certain expenses incurred by Morgan Stanley employees in connection with identifying, negotiating, executing, researching, financing, managing, developing, disposing or leasing potential or actual investment opportunities for the Fund, (ii) compensation paid to the independent board of directors, (iii) costs and expenses incurred in connection with board, advisory committee or investor meetings; (iv) cost and expenses related to engagement of third-party consultants, advisers and service providers, (v) costs and expenses related to insurance policies, (vi) brokerage and other transactions costs including but not limited to custody fees, (vii) any costs and expenses related to indemnities, contributions, taxes or litigation imposed on or due by the Fund or its subsidiaries, (viii) costs and expenses related to raising equity capital; and (ix) costs and expenses related to Fund administration, accounting and IT services.

In addition, the Adviser may retain Morgan Stanley to provide various investment banking or other advisory services for the Fund and its portfolio companies and cause the Fund and the portfolio companies to pay Morgan Stanley customary fees for these services.

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Fees and expenses may be deducted from the Client's assets as set forth in the Operating Agreement.

The Adviser and its affiliates may provide the Fund with certain data processing, legal or insurance purchasing or administrative services (but excluding accounting services) which would otherwise be performed for the Fund by third parties and, in such event, the Adviser and its affiliates may be reimbursed by the Fund at the lesser of (i) the cost of providing such services (including reasonable employment costs and related overhead allocable thereto) and (ii) the amount that would be payable by the Fund if services of equal quality were provided by third parties on an arm's-length basis, except that such reimbursements will not be permitted with respect to appraisal or valuation services.

The Confidential Offering Memorandum for the Fund includes further details on fees and compensation and related matters.

### **Other Clients**

Fees charged for the Adviser's other Client's investment management services are negotiated on a client-by-client basis as set forth in asset management agreement(s) between the Client and the Adviser or as set forth in the applicable limited partnership or limited liability company agreements by and among the parties to such agreements including the Adviser and the Client. The Adviser may provide investment advisory services to Clients for negotiated fixed fees based on a property's or portfolio's value, and may, from time to time, receive management fees, acquisition and disposition fees, development fees, fees tied to a percentage of funds distributed to investors and performance-based fees (except in those jurisdictions that do not allow fees based on performance). Frequently, these fees are set on a per real estate asset basis, thereby taking into account the variations in the date of acquisitions, the geographic markets and the real estate cycles in a manner which is fair both to the Client and the Adviser.

Expenses charged for the Adviser's other Client's investment management services are negotiated on a client by client basis as set forth in asset management agreements between the Client and the Adviser or as set forth in the applicable limited partnership or limited liability company agreements by and among the parties to such agreements including the Adviser and the Client. Such agreements generally provide for reimbursement for all third-party, out-of-pocket expenses incurred by the Adviser in performance of its duties under such agreements. In addition, the Adviser is sometimes paid an annual reporting fee to cover activities related to the analysis, presentation and reporting of information and all information technology requirements set forth in the applicable asset management agreements.

### **Placement Fees**

With respect to the Fund, broker-dealer affiliates of the Adviser act as placement agents in connection with the placement of the Fund's interests. To the extent these broker-dealers receive fees in connection with such placements, the placement fees are paid by the Adviser.

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See also Item 12 relating to certain transaction fees and expenses which may arise from the brokerage practices of the Fund. 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).

### **Co-Investments**

While the Adviser does not currently provide investment advisory services to co-investment clients, it retains the discretion to do so. The terms of a co-investment applicable to one co-investor may be different than the terms applicable to another co-investor, including that certain co-investors may be required to pay management fees while other co-investors (including affiliates of Morgan Stanley) may not be required to pay such amounts. The Adviser may or may not charge management fees and/or one time funding fees in respect of co-investments, subject to the terms of any applicable agreements with investors. The allocation of any co-investment opportunities may directly or indirectly benefit the Adviser as a result of, among other things, the receipt of any such fees, capital commitments to the Fund and capital commitments to other affiliated investment accounts. Co-investors in one or more specific investments will not necessarily be required to share in broken-deal expenses that are paid by the Fund, either with respect to a co-investment opportunity that is not consummated or with respect to other potential investments that may be offered to the Fund. See also Allocation of Co-Investment Opportunities in Item 11 below for additional information on the allocation of co-investment opportunities.

### **Disparate Fee Arrangements with Service Providers**

Certain advisors and other service providers to the Fund (including accountants, administrators, lenders, bankers, brokers, agents, attorneys, consultants, and investment or commercial banking firms), and/or their affiliates also provide goods or services to or have business, personal, political, financial or other relationships with Morgan Stanley, the Adviser or their affiliates. Such advisors and other service providers may be investors in the Fund, sources of investment opportunities or co-investors or counterparties therewith. These other services and relationships may influence the Adviser in deciding whether to select or recommend such a service provider to perform services for the Fund (the cost of which generally will be borne by the Fund and, indirectly, the investors in the Fund). In certain circumstances, advisors and other service providers, or their affiliates charge different rates or have different arrangements for services provided to Morgan Stanley, the Adviser or their affiliates as compared to services provided to the Fund, which may result in more favorable rates or arrangements than those payable by the Fund. Item 10 further describes material relationships with Morgan Stanley and other affiliated entities.

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

As discussed in Item 5, the Adviser provides advisory services to the Clients and receives fees in consideration for such services. For such services to the Fund, the Adviser is entitled to an Incentive Fee. The Incentive Fee is earned on the basis of the NAV of the Fund and growth of the net operating income of certain of the investments held by the Fund. For a discussion of the fees charged by the affiliates of the Adviser with respect to the Fund, please refer to Item 5. The Adviser will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Advisors 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. In addition, real estate-related affiliates of the Adviser have different fee arrangements with respect to their various clients. These differing fee arrangements may create an incentive to favor higher fee paying clients in the allocation of investment opportunities or in other areas. The Adviser and its other real estate-related affiliates have 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.

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 and institutional investors. The Clients that are pooled investment vehicles are not subject to regulation under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Real estate partnerships and other pooled investment vehicles sponsored by the Adviser and for which the Adviser provides investment advice may contain minimum investment requirements. Generally, the Fund investors are required to invest a minimum of \$5 million, unless otherwise approved by the Adviser.

Membership interests in the Fund can 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 clients” for purposes of Rule 205-3(d)(1) of the Investment Advisers Act, as amended.

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

### **Investment Strategies**

For purposes of the discussion herein, the term Clients includes the Fund. The investments made by the Adviser on behalf of its Clients are typically in core real estate opportunities located within the United States, including, among other things, investments in direct wholly-owned real estate, publicly traded or privately held real estate operating companies, programmatic joint ventures, real estate and real estate loans (and, subject to certain limitations, non-real estate loans), multifamily and office developments and real estate-related debt instruments. The Adviser also causes the Clients to invest cash held by the Clients in temporary investments (“Temporary Investments”) on a short term basis pending investment in long-term equity investments, or payments of indebtedness, or expenses or other obligations of the Fund. Temporary Investments will principally take the form of U.S. government and U.S. Agency obligations, bank and bank holding company deposits and certificates of deposits.

The Adviser’s main source of information and investment opportunities are contacts with employees of Morgan Stanley, a public company listed on the New York Stock Exchange (of which the Adviser is a wholly-owned subsidiary), contacts with employees of portfolio companies owned by the Fund, industry executives and established business relationships. Regional investment teams are responsible for performing due diligence on potential investments. Such analysis includes underwriting the potential returns and risks for such investments (including legal, tax, accounting and environmental issues), as well as regularly monitoring the value of such investments. The regional investment teams assess the impact of various macro and microeconomic shifts on potential investments and the quality of the underlying real estate-related investments. Special attention is given to the capacity of said real estate to provide current rental income, and the ability of the real estate’s surrounding market to sustain growing property values. Investments recommended by the Adviser in the area of real estate (including real estate-related securities) will generally be for long-term purchase, with the majority of the returns derived from income production and an important part of the return on such investments attained through capital appreciation over the holding periods which may extend in some instances for several years.

### **Methods of Analysis**

#### ***Evaluation of Investment Opportunities; Investment Decisions***

Once investment opportunities have been identified, the Adviser utilizes the resources of Morgan Stanley Real Estate Investing (“MSREI”), acting on behalf of the Adviser, to conduct in-depth analysis and due diligence of the potential investment opportunities. All investment decisions are made by the Adviser in consultation with the applicable MSREI investment committee (the “Investment Committee”). The Investment Committee is comprised of senior professionals of Morgan Stanley, including individuals with a wide range of relevant real estate, investment banking, capital markets, private equity, risk management or other business experience.

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In connection with making a proposed investment, MSREI prepares analyses to project realizable cash flows and assess the ability of the real estate investment to support its obligations as well as its potential to appreciate in value. Where appropriate in its analysis, MSREI works with management, developers or other partners and consultants to enhance MSREI's understanding of the real estate investment and its prospects.

MSREI's professionals, through years of real estate industry experience, provide the Adviser's Clients with significant support in evaluating investment opportunities. In the aggregate, such professionals have knowledge of most of the major real estate markets in the United States and globally. In addition, many of MSREI's professionals are familiar with the real estate classes in which the Clients may consider making an investment. Such in-house industry expertise should permit the Clients to respond to investment opportunities in an expedited manner.

Where appropriate, the Adviser retains third-party consultants to assess business and market conditions, competition, physical and environmental concerns and other factors that it deems necessary to review with external advisors.

### ***Management of Risk***

After completing an acquisition, the Adviser considers further steps to manage the on-going risk, including managing appropriate sector and geographic diversification, interest rate exposure, monitoring debt duration and mix of maturities, the sale of properties with limited upside potential, global insurance policies and appropriate economic incentives for property managers, joint venture partners and corporate executives.

### ***Asset Management***

The Adviser oversees all of the Clients' investments utilizing strict operational and accounting controls in conjunction with periodic site inspections, while corporate management teams, joint venture partners and other third-party property managers are responsible for the day-to-day operations of each investment. The entities responsible for the day-to-day operations of specific investments are compensated in a manner intended to ensure that the interests of these entities are aligned with those of the Clients.

In connection with its asset management program, the Adviser supervises and oversees the management of each investment, reviewing the operational discussions, joint venture decisions and third-party property managers with the objective of maximizing the overall performance of each investment. Reporting on the performance of each investment is integral to the Adviser's asset management program. Status reports on the Clients' investments are prepared by asset management or portfolio management teams, joint venture partners and third-party property managers for review by the Adviser. In addition, an operating budget for each property and investment is prepared for review and approval by the Adviser.

Portfolio management and asset management professionals review the operations of the Clients' investments and strategic operating decisions regarding a property or investment. These senior

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executives are also responsible for recommending disposition and recapitalization strategies based on the ongoing performance of specific investments and changing market conditions.

### **Risks Related to the Adviser's Investment Strategy**

Investing in real estate and securities, including real estate-related securities involves risk of loss that investors should be prepared to bear. The Adviser cannot provide assurance that it will be able to generate any level of returns for investors. The Adviser's 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 following list of risk factors does not purport to be a complete list or explanation of the risks involved in an investment in the Fund. The risks summarized below are described in greater detail in the Confidential Offering Memorandum of the Fund. 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 Confidential Offering Memorandum. You may also request an updated explanation of risk factors by contacting Morgan Stanley Merchant Banking & Real Estate Investing Investor Services as described above.

- risks associated with real estate investments;
- environmental liabilities;
- economic and market risks;
- risks of acquiring interests in joint ventures;
- lack of diversification due to location and type of investments;
- interest rate fluctuations;
- lack of liquidity and long-term nature of investments;
- limited current return;
- indemnification;
- tax considerations;
- valuation risks;
- risks from research-guided strategies;
- risk from tax strategies adopted by the Adviser for the Fund;
- lack of investment limits;
- use of leverage at the Fund and investment or portfolio company level;
- inability to obtain indebtedness on favorable terms;
- investments in developments and other value-add strategies;

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- commercial and business risks associated with portfolio companies;
  - expedited transactions;
  - competition for real estate assets;
  - cybersecurity risks;
  - reliance on the Adviser and its real estate professionals located within MSREI; and
  - burdensome regulation by one or more governmental entities in specific industries and potential for increased regulation.

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## Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Adviser or the integrity of the Adviser's management.

In February 2009, Morgan Stanley announced that it had uncovered actions initiated by an employee based in China in an overseas real estate subsidiary that appear to have violated the United States Foreign Corrupt Practices Act. Morgan Stanley terminated the employee, reported the activity to appropriate authorities and cooperated with investigations undertaken by the DOJ and the SEC. On April 25, 2012, the DOJ announced that the former employee had pled guilty to certain criminal charges, and the SEC announced that it had brought certain civil charges against the former employee, which were settled. On the same day, the DOJ and SEC announced that they would not take any action against Morgan Stanley in connection with this matter.

Unrelated to the immediately preceding paragraph, in February 2009, the Italian financial and securities regulatory authority, known as Consob, made findings involving Mr. Olivier de Poulpique and others as described below. The events at issue took place in 2007, when Mr. de Poulpique was a member of the Board of Directors and the Managing Director of the Investment & Asset Management Division of Pirelli & C. Real Estate S.p.A. ("Pirelli RE"), and involved tender offers made by a joint venture vehicle (the "JV") owned by Pirelli RE and Morgan Stanley Real Estate Special Situations Fund III, L.P. for the units of two Italian listed investment funds managed by Pirelli & C. Real Estate SGR S.p.A. ("Pirelli RE SGR"), an affiliate of Pirelli RE. The JV was advised by Morgan Stanley and Bonelli Erede Pappalardo in connection with the tender offers. The tender offers triggered competing bids from third parties, resulting in increases in the purchase prices for the investment funds' units from €90 to €90 per unit in the case of one investment fund and from €40 to €13 per unit in the case of the other investment fund. To the best of our knowledge, there were no complaints filed by any investor in either of the two listed investment funds with respect to the tender offers and their outcomes.

The Consob findings were issued in February 2009, pursuant to which Consob found Pirelli RE, Pirelli RE SGR, and directors and certain officers and employees of Pirelli RE and Pirelli RE SGR (in all, eight individuals including Mr. de Poulpique) to have violated Italian securities laws. Consob found that the tender offer documents relating to both tender offers did not adequately disclose information concerning the reasons for the tender offers and the future plans of the JV with respect to the investment fund units purchased by the JV for cash pursuant to the tender offers. Consob also found that the tender offer documents for one of the tender offers failed to disclose that the purchase price offered in the tender offer was not supported by a certain financial analysis prepared for the JV. In addition, a third finding related to undue influence involving a conflict of interest by Pirelli RE and certain Pirelli RE representatives over certain actions taken by Pirelli RE SGR in connection with the tender offer. The Consob

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findings were appealed to an intermediate appeals court which overturned one finding but upheld the three described above, including administrative monetary sanctions aggregating €460,000 against Mr. de Poulpiquet. Mr. de Poulpiquet has contested the findings and both he and Consob have appealed various issues to the Italian Supreme Court, which on November 20, 2015 upheld the decisions of the intermediate appeals court.

At the time Mr. de Poulpiquet joined Morgan Stanley & Co. International plc (“Morgan Stanley International”) in 2010, Morgan Stanley International reviewed the Consob findings. Based on their assessment of Mr. de Poulpiquet and the Consob findings, Morgan Stanley International and the Adviser concluded and continues to believe that Mr. de Poulpiquet is fit for his role with the Adviser.

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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. 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 Fund. Investors should be aware that potential and actual conflicts of interest between Morgan Stanley or any Affiliated Investment Account, on the one hand, and the Fund, on the other hand, may exist and others may arise in connection with the operation of the Fund. Morgan Stanley's employees may also have interests separate from those of Morgan Stanley and the Fund. 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 Fund's 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.

### **Commodity Pool Operator, Commodity Trading Adviser, Futures Commission Merchant Registration**

The Adviser, the Fund, its respective portfolio companies and their respective affiliates may use the commodity pool operator, commodity trading advisor and futures commission merchant registrations or exemptions of one or more of the following related persons: North Haven Real Estate Fund VIII Global Foreign Hedging, L.L.C., MS Capital Partners VI GP L.P., Morgan Stanley Infrastructure II GP LP, Morgan Stanley Infrastructure GP LP, MSREF VIII Global-GP L.P., Morgan Stanley Infrastructure Inc., MSCP V GP Inc., MS Capital Partners V GP L.P., MS Energy Partners GP LP, Morgan Stanley Private Equity Asia, L.L.C, Morgan Stanley, Private Equity Asia III, L.L.C., Morgan Stanley Private Equity Asia IV, L.L.C., MSREF III, L.L.C., MSREF IV International-GP, L.L.C., MSREF V, L.L.C., MSREF V U.S.-GP, L.L.C., MSREF V, International-GP, L.L.C., MSREF Real Estate Advisor, Inc., MSREF VI International-GP, L.L.C., MSREF VII Hedging GP, Ltd., MSREF VII Global-GP, L.P., Morgan Stanley Real



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Estate Special Situations III-GP LLC, SSF III Hedging GP, Ltd., MS Capital Partners Adviser, Inc., Morgan Stanley Private Equity Asia Inc., MSREF III, Inc., MSREF IV, L.L.C., Morgan Stanley AIP GP LP, Morgan Stanley Alternative Investment Partners LP, Morgan Stanley Investment Management Inc.

### **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 Fund 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 Investment Management (Japan) Co., Ltd., 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, MS Capital Partners Adviser Inc., Morgan Stanley Infrastructure, 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 either registered with the SEC as an investment adviser or exempt from registration 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.

To the extent that the Adviser delegates its advisory or other functions to an SEC-registered investment adviser, a copy of the brochure of each such affiliate is available on the SEC's website and will be provided to investors in the Fund 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 investors (the "Solicited Partners"). The potential for the Placement Agents to receive compensation in

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connection with a Solicited Partner's investment in the Fund presents 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 and 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 Fund may use registered representatives and/or employees of their affiliates to conduct solicitation activities in relation to new or incoming investors to the Fund 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 Fund.

From time to time, Morgan Stanley's investment banking professionals may introduce to the Fund a client that requires equity to complete an acquisition transaction. If the 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 as well as with certain Limited Liability Members. In determining whether to pursue a particular transaction on behalf of the Fund, 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 Fund in view of such relationships.

In addition, Morgan Stanley could provide investment banking services to competitors of companies in which the Fund invests, 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, in fact, may be prohibited by

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applicable law, from sharing any confidential or material non-public information with the Fund or the Adviser. Such activities may present Morgan Stanley with a conflict of interest vis-à-vis the Fund's portfolio entities and may also result in a conflict with respect to the allocation of investment banking resources to portfolio entities. Alternatively, any material non-public information about a potential investment or portfolio company in which Morgan Stanley comes into possession may preclude the Fund from pursuing an investment or exit opportunity with respect to such portfolio company or investment.

Morgan Stanley may also be engaged to act as financial advisor to financially troubled companies in which the Fund holds an investment. Morgan Stanley's compensation for such activities is generally based upon the successful completion of a restructuring which may include raising funds for the purchase, exchange or restructuring of existing securities or loans or for an equity infusion. In such case, certain conflicts of interest would be inherent in the situation including those involved in valuing the company.

- Other Limited Liability Company Investment Vehicles or Funds

- 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 Fund. Morgan Stanley may also from time to time create new or successor Affiliated Investment Accounts that may compete with the Fund and may present similar conflicts of interest. Certain members of the Fund's 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 Fund. In addition, certain Affiliated Investment Accounts may make investments similar to those that may be made by the Fund 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 Fund 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 Fund.

In some cases, Morgan Stanley or an Affiliated Investment Account may invite the Fund to co-invest with it or the Adviser may invite Morgan Stanley or an Affiliated Investment

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Account to co-invest with the Fund, in either the same or different tiers of a portfolio entity's capital structure or in an affiliate of such portfolio entity. To the extent the 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. See also "Allocation of Co-Investment Opportunities" in Item 11 below for additional information on the allocation of co-investment opportunities.

- Other Morgan Stanley Investment Management Activities

Morgan Stanley and its affiliates invest, on behalf of themselves, in securities and other instruments that would be appropriate for, are held by, or may fall within the investment guidelines of a client. In connection with these activities, Morgan Stanley may also take actions for its own accounts that may differ from, conflict with, or be adverse to, advice given to or action taken for clients, including the Fund. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for, one or more clients and/or the Fund.

Morgan Stanley, through its affiliates, invests in many of the private investment funds for its own account where Morgan Stanley affiliates act as an investment adviser and/or general partner. In addition, Morgan Stanley may receive performance-based compensation or benefit from a "carried interest" which is tied to the investment performance of such private investment funds. Morgan Stanley may engage in a variety of transactions, including entering into derivatives contracts, to limit its exposure to the risk of such investments. For example, Morgan Stanley may choose to hedge exposures (currency, interest rate, equities or commodities) arising from its investments in, or exposure to, through performance-based fees or carried interest, such private investment funds. These hedging activities may be inconsistent with the investment or hedging activities undertaken by Morgan Stanley affiliates acting as general partner and/or adviser to such private investment funds.

As a result of, and taking into account, such hedging, the performance of investors in such private investment funds who do not engage in hedging on their own may differ materially from those investors (including Morgan Stanley) who do engage in such activities. In addition, such activities may diminish the alignment of interest between Morgan Stanley and a particular private investment fund's investors.

- 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 Fund. Companies with which one or

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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.

Certain of the Adviser's management persons may also hold positions with or provide services to affiliates described above including with or for certain Affiliated Investment Accounts. 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. Additionally, these management persons may come into possession of confidential non-public information and may be recused from certain investment-related discussions, including Investment Committee meetings, so that such members do not receive information that would limit their ability to perform functions of their employment with Morgan Stanley unrelated to the Fund. Consequently, in carrying out their roles with the Adviser or the Fund 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 Client's 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 Client's investors, independent directors, limited liability members, 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 limited liability company agreement or limited partnership agreement. The Adviser may also choose to seek the approval of the independent directors, limited liability members or 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 to persons who are supervised by the Adviser or support the Adviser in providing investment advice to the Fund or, and who have access to non-public information regarding the purchase or sale of securities, or who make securities recommendations to the Fund, or who have access to such recommendations that are non-public ("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 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 the Fund, 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.

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On rare occasions, the 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.

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 one or more clients
- 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 (see also “Allocation of Co-Investment Opportunities” below)
- 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.

### **Allocation of Co-Investment Opportunities**

The Adviser may allocate co-investment opportunities among interested parties in its sole discretion including for example, on the basis of the size of investor commitments to the Fund and other Affiliated Investment Accounts as well as a broad range of other considerations, including, commercial considerations for the applicable portfolio investment, an investor’s stated desire to participate in co-investments, the Adviser’s determination of the appropriateness of offering a co-investment opportunity, an investor’s ability to execute such offer and the approval of transaction counterparties. There can be no assurances with respect to the amount of any co-investment opportunity that will be made available to an investor in connection with the Fund,

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and there is no guarantee, prediction or projection of the availability to an investor of co-investment opportunities.

Investing in the Fund does not entitle any investor to allocations of co-investment opportunities. Co-investment opportunities may, and typically will, be offered to some and not other investors or to third parties (including affiliates of Morgan Stanley) who are not investors in the Fund. In addition, subject to the foregoing priority rights (if applicable), an investor may be offered fewer co-investment opportunities than investors with the same or smaller capital commitments in the Fund and other Affiliated Investment Accounts, and some investors may receive no such offers while other investors with capital commitments of the same or lower amount may receive substantial offers for such opportunities. Investors are not required to participate in co-investments offered by the Adviser. The actual number of co-investment opportunities made available to investors may be significantly higher or lower than those made available in connection with other Affiliated Investment Accounts.



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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.

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 or real estate investments. The Adviser has assigned a portfolio management team to closely monitor the Fund's investments and generally maintains an ongoing oversight position through its accounting and portfolio management staff as well as asset managers assigned to manage and monitor investments and third-party advisers engaged to provide tax, legal and accounting expertise to the portfolio management team. In addition, controllers review the income and expenses from interests in real estate-related investments held monthly.

Similarly, with respect to the other Clients, asset managers review and report on the overall performance of each investment relative to the investment objectives of the Client.

**Valuations:** Valuations for each of the Fund's investments are generally conducted by third-party appraisers once a quarter. With respect to Clients other than the Fund, valuations are generally completed when requested or pursuant to the direction of the Client or as set forth in the Client contract.

**Investment and Portfolio Review:** In general, the other Client's investment committee reviews and approves all significant proposed investment acquisitions. In addition, on a regular basis, portfolio management provides a review of the performance, overall portfolio construction, Fund liquidity, risk management, legal, tax and compliance issues, investor relations issues and other similar issues and reports its findings to the Investment Committee on a periodic basis. The members of the Investment Committee are identified in the Supplements to the Adviser's Brochure in Form ADV Part 2B.

**Reports:** The Adviser provides audited financial statements of the Fund to its investors and investors within the Fund's Employee Fund within 90 days after the end of its fiscal year. In addition, within 60 days after the end of each quarter, the Fund mails to each investor in the Fund or in the Employee Fund a description of such Fund's financial position at the end of such quarter as well as any significant developments that occurred during the quarter.

Reporting for other Clients is generally negotiated by these Clients as set forth in their respective advisory contracts. Generally, other Clients require reports on investments and the information required for such other Clients to complete their respective audited financial statements and prepare their respective tax returns, no later than 90 days following the end of each fiscal year.

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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 investors 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 cash and securities of the Fund and certain Clients by virtue of its relationship as investment adviser of the Fund and such Clients. Each investor will receive the Fund's audited financial statements and each Client for which the Adviser acts as custodian will receive the applicable audited financial statements, in each case prepared in accordance with generally accepted accounting principles within 90 days of the end of the Fund's fiscal year.

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## **Item 16 – Investment Discretion**

As the investment adviser to the Fund, the Adviser will have discretion to determine, without consent of the Fund's investors, the particular securities and/or real estate 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 leverage, geography and type of permitted investments as set forth in the Operating Agreement. With respect to the Fund, certain investment limitations may be disregarded with the consent of a majority of the Fund's Board of Directors, as set forth in the Operating Agreement.

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.

Investment discretion is assumed pursuant to the applicable Fund Operating Agreements, which confer express authority to the Adviser and its affiliates (including the Adviser) to make all decisions concerning the investigation, evaluation, selection, negotiation, structuring, commitment to, monitoring of and disposition of investments.

In the case of Clients other than the Fund, the Adviser and the Client execute an asset management agreement, investment management agreement or operating agreement, the terms of which define the level of investment discretion and any limitations the Client imposes on the level of investment discretion (where applicable).

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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 of the Advisers Act. Copies of the Proxy Voting Policy are available upon request from the Adviser. 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 certain 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 advisers may be required to consider.

The Clients may 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.