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**March 31, 2017**

This brochure (the “Brochure”) provides information about the qualifications and business practices of Morgan Stanley AIP GP LP. If you have any questions about the contents of this Brochure, please contact us at 610.260.7600. We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. 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.

We are 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 you may use to determine whether to hire or retain an adviser.

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

## **Item 2 – Material Changes**

While there have been no material changes to this Brochure since the last annual update of the Brochure on March 31, 2016, we have made certain routine updates.

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#### **Item 4 – Advisory Business**

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

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

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

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

Our advisory business focuses on the discretionary investment management of Accounts across three strategies: (1) fund of hedge funds; (2) private markets fund of funds; and (3) portfolio solutions. We do not participate in any wrap fee programs.

Fund of Hedge Funds: Our fund of hedge funds investment process consists primarily of investing in hedge funds managed by Underlying Investment Managers who employ a variety of non-traditional investment strategies and in certain investment funds managed in a traditional style. As part of this investment strategy for some Funds, we may make investments in secondary market purchases of interests in hedge funds. In addition, certain of the fund of hedge funds Accounts may invest directly in privately held companies or publicly traded companies in which an Account invests generally alongside an Investment Fund, typically an Investment Fund in which the Account invests directly ("Targeted Opportunities") as part of its investment strategy.

*Hedge Fund Solutions:* The Hedge Fund Solutions group combines the due diligence resources of the fund of hedge funds investment team with the analytic capabilities of the PSG to provide hedge fund portfolio solutions to our clients, and to clients of our affiliate, Morgan Stanley Smith Barney LLC ("MSSB" or "Wealth Management"), via customized hedge fund portfolios and/or investment recommendations into non-affiliated, single and multi-strategy hedge funds, including our non-discretionary advisory service, Customized Advisory Portfolio Solutions ("CAPS").

*Operational Due Diligence:* As part of our investment management process for funds of hedge funds primary investments, we analyze the quality of an Underlying Manager's resources, controls, infrastructure and service providers through on-site meetings with management, background investigations, examination of fund documents, audited financial statements and discussions with the fund's independent service providers. For hedge funds purchased in secondary market transactions, operational due diligence may be scaled back and calibrated to the size and details of the transaction, with a focus on transaction-specific risks.

Private Markets Fund of Funds: For our Private Markets Fund of Funds strategies, we generally implement our investment advice through three primary investment approaches: (a) primary commitments to private markets Investment Funds; (b) co-investments, minority investments in

operating companies, primarily alongside our existing Underlying Investment Managers (“Co-Investments”); and (c) secondary market purchases of interests in existing private markets Investment Funds. The Accounts may also invest in investments other than Investment Funds and Co-Investments.

Portfolio Solutions: The Portfolio Solutions Group (“PSG”) implements investment advice by integrating traditional and non-traditional investments through a single portfolio construction philosophy and approach. The investment may include stand-alone hedge fund portfolios, mutual funds, equity and fixed income portfolios, portfolios of alternative investments that complement traditional allocations to global equities and fixed income, or a full range of investments across traditional and non-traditional asset classes (“diversified alternatives”).

PSG may also act as a fiduciary advisor for large pools of assets. As a fiduciary, PSG assists the client in establishing the investment policy, guidelines and restrictions. In addition, PSG makes and implements asset allocation decisions; and selects, supervises and monitors other managers, which may include affiliated and non-affiliated entities. As fiduciary advisor, PSG will report to the fiduciary or other person responsible for the overall management of the large pool of assets.

As of December 31, 2016, we managed \$16,572,804,125 in client assets on a discretionary basis and \$718,176,560 on a non-discretionary basis totaling \$17,290,980,685 of assets under management or supervision.

## **Item 5 – Fees and Compensation**

### ***Funds:***

#### Fund of Hedge Funds:

For advisory services rendered to the Funds pursuing a fund of hedge funds investment strategy, we generally are entitled to a fee in an amount (on an annualized basis) of up to (i) 1.50% of the net asset value of the applicable Fund, or (ii) 1.50% of the aggregate capital commitment to the applicable Fund. In the case of certain Funds, the fees charged by us may decrease over time upon the occurrence of certain events, as described in the governing documents of such Funds. In some cases, we or our affiliate are also entitled to and receive performance based fees which vary between 5% - 10% of the investor's net profits, and may be subject to a minimum hurdle rate and/or high water mark.

For certain funds managed by Advisor, an affiliate of the Advisor is generally entitled to carried interest with respect to each Limited Partner equal to 10% of such Limited Partner's profits, subject to satisfaction of an 8% internal rate of return, compounded annually.

Funds pursuing a fund of hedge funds investment strategy generally book fees (and as applicable, incentive allocation estimates) on a monthly basis.

We charge a fee to our affiliate, Wealth Management for our services related to (i) conducting investment and operational due diligence on hedge funds; (ii) providing portfolio advisory services in connection with customized mandates; and (iii) managing a list of hedge funds into which qualified advisory Wealth Management clients may invest. Fees for services relating to Hedge Fund Solutions are invoiced quarterly in arrears.

### Private Markets Fund of Funds:

For investment advisory services rendered to the Funds pursuing a private markets fund of funds investment strategy, we are generally entitled to a fee in an amount (on an annualized basis) of up to 1.75% which will generally be based on either (i) your aggregate capital commitment to a Fund, (ii) your attributable share of the aggregate capital commitments made by the applicable Fund to such Fund's underlying investments (based on the acquisition costs of such underlying investments) and (iii) your attributable share of the aggregate capital contributions made by the applicable Fund to such Fund's underlying investment (excluding amounts constituting a return of a capital contribution by such underlying investments). In the case of certain Funds, the fees charged by us may decrease over time upon the occurrence of certain events, as described in the governing documents of such Funds. In most cases, we or our affiliate are also entitled to receive performance based fees which vary.

The Advisor or an affiliate of the Advisor is generally entitled to carried interest with respect to each Limited Partner generally ranging from 5% - 20% of such Limited Partner's profits, subject to satisfaction of an internal rate of return ranging from 6% - 8%, compounded annually.

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

Funds pursuing private markets fund of funds fund of funds investment strategies generally book fees on a quarterly basis.

For certain Funds, the fee is based on your aggregate contributions respecting Investment Funds plus your attributable share of the aggregate unfunded capital commitments made by the applicable Fund to Investment Funds.

Subject to applicable law and the relevant Fund's governing documents, the general partner of a Fund may enter into arrangements with certain investors that have the effect of altering or supplementing the terms of such investors' investments in a Fund, including with respect to waivers or reductions of the management fee.

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

Fees and expenses you may expect to incur include, but are not limited to, the operating expenses and performance-based incentive fees or allocations of expenses of the Investment Funds in which the Funds invest. Operating expenses typically consist of management fees, administration fees, professional fees (i.e., audit and legal fees), and other operating expenses. With respect to Funds that pursue a private markets fund of funds strategy fund of funds strategy, the management fee will be in addition to your capital commitment.

In limited circumstances, we may retain independent brokers who offer asset purchase opportunities to us in certain fund of funds secondary transactions. In these instances, we allocate all fees and commissions related thereto pro rata to the participating Accounts.

Broker-dealers, including our affiliates, may act as placement agents to assist in the placement of a Fund's interests. Any placement fee [and/or investor servicing fee] will be paid by you as an investor in the Fund and is in addition to your capital commitment or capital contribution, as applicable. The amount of any placement fee [and/or investor servicing 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 [and/or investor servicing fees] payable by an investor, including an investor that is an employee or affiliate of ours.

Additionally, clients, including investors in certain funds advised by us, are generally required to bear out-of-pocket costs and expenses incurred in connection with deals that are not ultimately completed. Typically, these expenses include (i) legal, accounting, advisor consulting or other third-party expenses in connection with making an investment that is no ultimately consummated, (ii) all fees (including commitment fees), costs and expenses of lenders, investment banks and other financing sources in connection with arranging financing for a proposed investment that is not ultimately made, and (iii) any break-up fees, deposits or down payments of cash of other property which are forfeited in connection with a proposed investment that is not ultimately make (in each case, to the extent such investment is not ultimately made by another advisory client.



### Portfolio Solutions Group:

For discretionary services rendered to clients in commingled funds, we generally are entitled to a fee in an amount (on an annualized basis) of up to 1.10% of the net asset value of the applicable account. In some cases, we or our affiliate are also entitled to and receive performance based fees which vary between 5%-20% of the investor's net profits, and may be subject to a minimum hurdle rate and /or high water mark.

Fees are recorded monthly within the commingled fund.

### *Separate Accounts:*

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

### ***Expenses Charged to Clients/Fee Discounts:***

Fees and expenses you may expect to incur include, but are not limited to, the operating expenses and performance-based incentive fees or allocations of expenses of the Underlying Investment Funds in which the funds invest. Operating expenses typically consist of management fees, administration fees, professional fees (i.e., audit and legal fees), and other operating expenses. With respect to funds that pursue a private markets fund of funds strategy, the management fee will be in addition to your capital commitment.

Depending upon the terms of particular arrangements with clients, we may select or recommend that certain service providers to clients (including accountants, administrators, lenders, bankers, brokers, agents, attorneys, consultants, and investment or commercial banking firms) and/or their affiliates perform services for clients (the cost of which generally will be borne by the advisory client). These service providers may also provide goods or services to or have business, personal, political, financial or other relationships with us or our affiliates. Such service providers may be

investors in a fund, our affiliates, sources of investment opportunities or co-investors. These other services and relationships may influence us in deciding whether to select or recommend such a service provider to perform services for clients. Notwithstanding the foregoing, investment transactions on behalf of clients that require the use of a service provider generally will be allocated to service providers on the basis of best execution, the evaluation of which includes, among other considerations, such service provider's provision of certain investment related services and research that we believe to be of benefit to the clients. In certain circumstances, service providers, or their affiliates, may charge different rates or have different arrangements for services provided to Morgan Stanley, us or our affiliates as compared to services provided to the clients, which may result in more favorable rates or arrangements than those payable by the clients.

Clients, including investors in certain funds advised by us, are generally required to bear out-of-pocket costs and expenses incurred in connection with deals that are not ultimately completed. We have adopted a policy related to the allocation of broken-deal expenses in which we generally allocate to our Accounts in the manner we determine to be fair and equitable. Typically, these expenses include (i) legal, accounting, advisory consulting or other third-party expenses in connection with making an investment that is not ultimately consummated, (ii) all fees (including commitment fees), costs and expenses of lenders, investment banks and other financing sources in connection with arranging financing for a proposed investment that is not ultimately made, and (iii) any break-up fees, deposits or down payments of cash or other property which are forfeited in connection with a proposed investment that is not ultimately made (in each case, to the extent such investment is not ultimately made by another advisory client).

Subject to applicable law and the relevant fund's governing documents, we may enter into arrangements with certain investors that have the effect of altering or supplementing the terms of such investors' investments in a fund, including with respect to waivers or reductions of the management fee.

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

In some cases, we have entered into performance fee arrangements with qualified clients. Such fees are subject to individualized negotiation with each such client.

Because the portfolio managers may manage assets for other investment companies, pooled investment vehicles and/or other accounts (including accounts of institutional clients and pension plans), there may be an incentive to favor one client over another resulting in conflicts of interest. For instance, we may receive fees from certain accounts that are higher than the fee we receive from another account, or we may receive a performance-based fee on certain accounts. In those instances, the portfolio managers may have an incentive to favor the higher and/or performance-based fee accounts over another account. In addition, a conflict could exist to the extent we have proprietary investments in certain accounts, where portfolio managers have personal investments in certain accounts or when certain accounts are investment options in our employee benefits and/or deferred compensation plans. The portfolio manager may have an incentive to favor these accounts over others. If we manage accounts that engage in short sales of securities of the type in which the account invests, we could be seen as harming the performance of the account for the benefit of the accounts engaging in short sales if the short sales cause the market value of the securities to fall. A portfolio manager may also be faced with a conflict of interest when allocating investment opportunities, given the possibility of greater fees from accounts that pay performance-based fees as opposed to accounts that do not pay performance-based fees.

To address these types of conflicts, we have adopted policies and procedures pursuant to which allocation decisions may not be influenced by fee arrangements and investment opportunities will be allocated in a manner that we believe to be consistent with our obligations as an investment adviser. To further manage these types of conflicts, we have implemented Side-by-Side Management guidelines, which are designed to set out specific requirements regarding the side-by-side management of traditional investment portfolios (e.g., long-only portfolios) and alternative investment portfolios (e.g., hedge fund portfolios) to manage potential conflicts of interest, including without limitation, those associated with any differences in fee structures, investments in the alternative investment portfolios by MSIM or its employees and trading-related conflicts (including conflicts of interest that may also be raised when MSIM investment

teams take conflicting (i.e., opposite direction) positions in the same or related securities for different accounts). In addition, we have established a Side-by-Side Management Subcommittee to ensure that such conflicts are reviewed and managed appropriately.

Any performance fee received by us or our affiliates will be in compliance with the requirements of Section 205 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), and Rule 205-3 thereunder. In certain circumstances, the general partner of a Fund may defer or waive all or any part of the performance fee or allocation.

#### Conflicts Arising from Non-Discretionary Accounts.

In connection with our CAPS service, we manage assets for Accounts for which we do not exercise investment discretion, but rather we make investment recommendations to clients, who must then specifically direct us to purchase or sell an investment (the “Non-Discretionary CAPS Accounts”). In many cases, we make recommendations to Non-Discretionary CAPS Accounts that are the same as the investment decisions we make and implement on behalf of Accounts for which we exercise investment discretion (the “Discretionary Accounts”) (e.g., purchase or sale transactions for the same Investment Fund).

A conflict of interest may be created when simultaneous management of Non-Discretionary CAPS Accounts and Discretionary Accounts exists, because we generally receive higher fees, which may include performance fees, from Discretionary Accounts. As a result, we may have a financial incentive to allocate opportunities to invest in Investment Funds to Discretionary Accounts over Non-Discretionary CAPS Accounts. In addition, our ability to manage this potential conflict of interest is limited by a number of factors, including:

1. We do not have full authority over the aggregate amount that our clients, discretionary and non-discretionary, are able to make in an Investment Fund or the timing of such investments. Many Investment Funds restrict the amount and timing of investment opportunities (sometimes referred to as offering “limited capacity”). Investment Funds

also may allow investment by some types of clients, but not others (*i.e.*, the Investment Funds may prefer some types of Accounts over others).

2. We do not have the ability to cause a client to act promptly in response to a recommendation that we make with regard to an investment for a Non-Discretionary CAPS Account. As a result, there may be substantial delay between the date of our recommendation and the date on which an investment can be implemented.

As a result of these factors, and notwithstanding the potential conflict of interest, we generally cannot guarantee that Non-Discretionary CAPS Accounts will be able to invest in any Investment Fund, even though our Discretionary Accounts may have been able to invest in the same Investment Fund. We allocate investment opportunities to Non-Discretionary CAPS Accounts, while maintaining investment allocation procedures for Discretionary Accounts and Non-Discretionary CAPS Accounts as described below.

We will determine whether an Investment Fund should be recommended for investment by one or more Non-Discretionary CAPS Accounts separately from the determination that we make to invest in an Investment Fund on behalf of our Discretionary Accounts, although these determinations may be made at or about the same time. If we determine to recommend investment in an Investment Fund for a Non-Discretionary CAPS Account, we generally will make a recommendation to the Non-Discretionary CAPS Accounts for which we believe the Investment Fund would be an appropriate investment promptly. We also will determine, which determination may be made in consultation with the Underlying Investment Manager, what portion of the opportunity to invest in the Investment Fund should be preliminarily allocated for anticipated investment by Non-Discretionary CAPS Accounts. At the time that we make a recommendation with respect to a Non-Discretionary CAPS Account, we will have a good faith reasonable belief that, if acted upon promptly by the client in accordance with the terms of the investment advisory agreement, an amount of investment in the Investment Fund that we believe is appropriate for the Non-Discretionary CAPS Account should be available. If the client does not act promptly on the recommendation, and in any event at least 15 days prior to the first proposed date of investment in the Investment Fund, then there is a substantial risk that no

investment in the Investment Fund will be available for the client's Non-Discretionary CAPS Account. If the aggregate demand for investment in the Investment Fund by Non-Discretionary CAPS Accounts exceeds the amount of investment opportunity allocated to Non-Discretionary CAPS Accounts, we generally will allocate the investment opportunity pro rata among the Non-Discretionary CAPS Accounts for which all pre-requisites to investment have been satisfied for the investment period for the applicable Investment Fund.

As a result of these allocation procedures, a Non-Discretionary CAPS Account may have a reduced allocation or no allocation to certain Investment Funds. The risk of a Non-Discretionary CAPS Account receiving a reduced allocation or no allocation to an Investment Fund will be increased if the client does not promptly satisfy all pre-requisites to making an investment in the Investment Fund, including providing written direction to us and assuring that the client account has sufficient funds to complete the investment.

## **Item 7 – Types of Clients**

We generally provide investment advice to registered and unregistered investment companies, pooled investment vehicles, separate accounts, corporate/business entities, high net worth individuals, endowments, foundations, charitable institutions, pension plans and domestic and foreign government agencies. In addition, we provide hedge fund manager research services to our affiliate.

Investors who wish to participate in our Funds are generally required to invest a certain minimum amount, which generally ranges (depending on the Fund) from \$25,000 to \$25 million. Certain Funds may have additional minimum investment requirements and may require that you are, among other things, a “qualified purchaser”, as defined under the Investment Company Act of 1940, as amended, and the applicable rules promulgated by the SEC thereunder (the “1940 Act”).

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

Generally, a minimum amount of \$25 million is required if you wish to engage us in connection with a customized portfolio account solution.

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

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

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

Fund of Hedge Funds: Our fund of hedge funds investment process consists of (a) investing in funds managed by Underlying Investment Managers who employ a variety of non-traditional investment strategies; (b) investing in funds managed by Underlying Investment Managers in a traditional style; and (c) secondary market purchases of hedge funds. Non-traditional investment strategies include a wide range of arbitrage (convertible bond, statistical, term structure, merger, mortgage backed security, global bond and capital structure), long-short equities and bonds, convergence, directional trading, distressed securities and options. These strategies allow

Underlying Investment Managers the flexibility to use leverage or short-sale positions to take advantage of perceived inefficiencies across capital markets and are referred to as “alternative investment strategies”. “Traditional” investment companies are characterized generally by long-only investments and limits on the use of leverage. Investment Funds following alternative investment strategies (whether hedged or not) are often described as “hedge funds”. We may also seek to gain investment exposure, on behalf of an Account, to certain Investment Funds or to adjust market or risk exposure by, among other things, entering into derivative transactions such as total return swaps, options and futures. Some of our fund of hedge funds Accounts may also invest in Targeted Opportunities as part of their investment strategy.

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

In some situations, an Underlying Investment Manager will agree to accept direct investments from our clients or the clients of our affiliate into an Investment Fund. We provide investment recommendations and/or portfolio construction advisory services focusing on such Investment Funds in arrangements where the clients retain investment discretion. For these client-direct investments, we do not utilize leverage.

Private Markets Fund of Funds: For our Private Markets Fund of Funds strategies, we implement our investment advice through three primary investment approaches: primary commitments to Investment Funds; Co-Investments, primarily alongside our existing primary Underlying Investment Managers; and secondary market purchases of existing private markets Investment Funds and other private markets assets. Our Private Markets Fund of Funds strategies may, in



some cases, make investments in other Investment Funds (both on a primary or secondary basis) or Co-Investments, such as illiquid private assets sourced from other alternative investment vehicles and/or publicly traded securities of private markets businesses or funds (“Other Investments”).

Our Private Markets Fund of Funds investment process generally consists of making primary commitments to and investing in private markets funds managed by Underlying Investment Managers who employ a variety of non-traditional private markets investment strategies, including buyouts, growth capital, venture capital, distressed companies, special situations, mezzanine, real assets partnership interests purchased and sold on the secondary markets, emerging markets and other categories. A Private Markets Fund of Funds Account may also make Other Investments and Co-Investments in any of the aforementioned strategies as part of its overall investment strategy.

Portfolio Solutions Group: PSG has developed proprietary approaches for measuring the risk and return of alternative investments and incorporating them within a broader portfolio. PSG designs and manages highly customized alternative investment portfolios and advises its clients on all aspects of portfolio construction, including: analyzing manager performance (both hedge funds and traditional managers); creating strategic portfolios that include alternative investments; and developing commitment strategies for private markets investments, real estate investments and portfolio transition plans.

### **General Risks of Investing in a Fund of Funds Investment Strategy**

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

*Multiple Layers of Fees:* By investing in the Investment Funds indirectly through an Account, you bear asset-based fees and performance-based fees or allocations at the Investment Fund level, in addition to those payable to us in our capacity as investment adviser. Similarly, you bear

a proportionate share of the other operating expenses of the Investment Funds in which your Account is invested; and of the Account itself. If you meet the conditions imposed by the Underlying Investment Managers, you could invest directly with such Underlying Investment Managers, including investments into certain Investment Funds available directly to clients through Hedge Fund Solutions.

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

*Independence of Third-Party Fund Management:* Investment Funds are generally managed by third-party managers unaffiliated with us and over which we do not exercise control. An Underlying Investment Manager may receive performance or incentive fees or allocations to which it is entitled, without regard to both the performance of the other Investment Funds in the Account and the performance of the overall Account. An Underlying Investment Manager to an Investment Fund with positive performance may receive compensation, even if the Account's aggregate returns are negative.

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

*Hedging Strategy Risks:* Certain client accounts, pooled investment vehicles, and Underlying Investment Funds, may choose, but are not required, to engage in transactions designed to reduce the risk or to protect the value of their investments, including securities and currency hedging transactions. These hedging strategies could involve a variety of derivative transactions, including transactions in forward, swap and option contracts or other financial instruments with similar characteristics, including, without limitation, forward foreign currency exchange contracts, currency and interest rate swaps, options and short sales (collectively “Hedging Instruments”). Certain risks associated with Hedging Instruments are further detailed below under “Risk Considerations Associated with Security Types - Derivatives Risks”. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of those positions decline, but establishes other positions designed to gain from those same developments, thus offsetting the decline in the portfolio positions’ value. While these transactions may reduce the risks associated with an investment by the account or the Underlying Investment Funds, the transactions themselves entail risks that are different from those of the investments of the accounts or Underlying Investment Funds. The risks posed by these transactions include, but are not limited to, interest rate risk, market risk, and the risk that these complex instruments and techniques will not be successfully evaluated, monitored or priced; the risk that counterparties will default on their obligations, liquidity risk and leverage risk. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives. Thus, while the accounts and Underlying Investment Funds may benefit from the use of Hedging Instruments, unanticipated changes in

interest rates, securities prices or currency exchange rates may result in a poorer overall performance for the accounts and Underlying Investment Funds than if they had not used such Hedging Instruments.

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

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

Investment Funds may permit or require that redemptions of interests be made in kind. Upon its redemption of all or a portion of its interest in an Investment Fund, a Fund may receive securities that are illiquid or difficult to value. In such a case, we would seek to cause the Fund to dispose of these securities in a manner that is in the best interest of the Fund. A Fund may be unable to withdraw from an Investment Fund except at certain designated times (if at all), limiting our ability to redeem assets from an Investment Fund that may have poor performance or for other reasons.

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

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

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

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

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

In addition, we address conflicts through disclosure to our investors in our funds. Should any transactions that present a potential conflict of interest actually arise, we may, in certain situations choose to seek the approval of the fund's 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. We may also choose to seek the approval of fund investors with respect to certain conflict situations or matters under the Advisers Act.

*Emerging Markets:* An Investment Fund selected for a portfolio may invest in assets in emerging markets. Investing in emerging markets involves risks and special considerations not typically associated with investing in other more established economies or securities markets. Such risks may include: (i) increased risk of confiscatory taxation or nationalization or expropriation of assets; (ii) greater social, economic, and political uncertainty, including war; (iii) higher dependence on exports and the corresponding importance of international trade; (iv) greater volatility, less liquidity, and smaller capitalization of securities markets; (v) greater volatility in currency exchange rates; (vi) greater risk of inflation; (vii) greater controls on foreign investment and limitations on repatriation of invested capital and on the ability to exchange local currencies for U.S. dollars; (viii) increased likelihood of governmental involvement in, and control over, the economies; (ix) governmental decisions to cease support of economic reform programs or to impose centrally planned economies; (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (xi) less extensive regulation of the securities markets; (xii) longer settlement periods for securities transactions and less reliable clearance and custody arrangements; and (xiii) less developed corporate laws regarding protection of investors and fiduciary duties of officers and directors.

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

*Regulation as a Bank Holding Company:* Morgan Stanley has elected to be regulated as a Bank Holding Company (a “BHC”) under the BHCA, and the Federal Reserve granted Morgan Stanley’s application for “financial holding company” (“FHC”) status under the BHCA. FHC status is available to BHCs which meet certain criteria. FHCs may engage in a broader range of activities than BHCs which are not FHCs.

The activities of BHCs and their affiliates are subject to certain restrictions imposed by the BHCA and related regulations. Because Morgan Stanley may be deemed to “control” a Fund within the meaning of the BHCA, these restrictions could apply to such Fund as well. These restrictions may materially adversely affect the Fund, among other ways, by imposing a maximum holding period on some or all of the Fund’s investments; limiting the amount of an entity’s beneficial ownership interests which the Fund may hold; restricting the ability of us, Morgan Stanley, any of our affiliates which serve as general partner or manager of the relevant Fund (in either case, the “Affiliated General Partner”), or their affiliates to invest in the Fund or to participate in the management and operations of the entities in which the Fund or an Investment Fund invests; or affecting either our ability to pursue certain strategies within a Fund’s investment program or our ability or the ability of the Fund, Morgan Stanley, any Affiliated General Partner, or any affiliates to invest in certain Investment Funds. Certain BHCA regulations may also require aggregation of the positions owned, held, or controlled in client and proprietary accounts by Morgan Stanley and its affiliates (including without limitation, us, and any Affiliated General Partner) with positions held by the Funds (and, in certain instances, one or more Investment Funds). Moreover, Morgan Stanley may cease in the future to qualify as an FHC, which may subject the Fund to additional restrictions or cause the general partner to dissolve the Fund. Additionally, there can be no assurance either that the bank regulatory requirements applicable to Morgan Stanley and the Funds will not change or that any such change will not have a material adverse effect on the Funds.

Morgan Stanley may in the future, in its sole discretion, restructure a Fund, an Affiliated General Partner or our firm to reduce or eliminate the impact or applicability of these bank regulatory restrictions on the Accounts. Morgan Stanley may seek to accomplish this result by causing another entity to replace a Fund’s current Affiliated General Partner (if any), transferring ownership of our firm or that of such Affiliated General Partner, reducing the amount of Morgan



Stanley's investment in the Fund (if any), effecting any combination of the foregoing, or implementing such other means as it determines in its sole discretion. Any such transferee may be unaffiliated with Morgan Stanley. In connection with any such change, we may in our sole discretion assign our right to receive a performance fee or allocation, if any or, with the required consent, cause another entity to be admitted to a Fund for the purpose of receiving the performance fee or allocation.

- *Dodd-Frank Act and Volcker Rule Disclosure:* In December 2013, U.S. regulators adopted final regulations ("Implementing Regulations") implementing Section 619 of the Dodd-Frank Act (which section is commonly referred to as the "Volcker Rule"). The Implementing Regulations became effective on April 1, 2014. Subject to certain exceptions, the Volcker Rule and the Implementing Regulations generally prohibit "banking entities" (which term includes bank holding companies and their affiliates) from investing in, sponsoring, or having certain types of relationships with, private equity funds or hedge funds (referred to in the Implementing Regulations as "covered funds"). Banking entities (including Morgan Stanley and its affiliates) were required to bring their activities and investments into conformance with the Volcker Rule by July 21, 2015, subject to certain extensions granted by the U.S. Federal Reserve by rule or (to the extent that Morgan Stanley so requests) by order). Although there can be no assurances, these extensions could potentially allow Morgan Stanley and its affiliates until latest July 21, 2022 to bring certain of their covered fund activities and investments into compliance with certain aspects of the Volcker Rule.

Volcker Rule and the Implementing Regulations impose a number of restrictions on Morgan Stanley and its affiliates that could affect us, a private equity fund or hedge fund (together, a "covered fund") offered by us, the general partner of those funds, and the limited partners of such funds. For example, Morgan Stanley and its affiliates are required (subject to any applicable extensions as discussed above) to eliminate their commitment to covered funds (potentially through a sale of their interests in the fund or in the general partner of the fund) or, if the fund qualifies for the relevant

exemption, reduce their commitment so that their aggregate commitments to the covered fund do not exceed 3% of the fund and their aggregate investment in covered funds does not exceed 3% of Morgan Stanley's Tier I capital. In addition, the Volcker Rule and the Implementing Regulations require Morgan Stanley and its affiliates to restructure or terminate their affiliations with, and/or to refrain from, other transactions (including "covered transactions" as defined in Section 23A of the U.S. Federal Reserve Act, as amended) with or for the benefit of, the covered funds. For example, Morgan Stanley will be prohibited from providing loans, hedging transactions with extensions of credit or other credit support to covered funds it advises. We, along with the covered funds we advise and the general partner, if applicable, are also be required to change our names to exclude the Morgan Stanley name (or any variation thereon), which may require some adjustment in the market. While we will endeavor to minimize the impact on our covered funds and the assets held by them, Morgan Stanley's interests in determining what actions to take in implementing the Volcker Rule and the Implementing Regulations may conflict with our interests and the interests of the private funds, the general partner and the limited partners of the private funds, all of which may be adversely affected by such actions. \_The foregoing is not an exhaustive discussion of the potential risks the Volcker Rule poses for us.

- Referendum on the UK's EU Membership. On June 23, 2016, the United Kingdom ("UK") voted by referendum to leave the European Union ("EU"), an event widely referred to as "Brexit". The UK is the first member state to vote to leave the EU and the process for departure is expected to take several years. At present, the nature of the relationship of the UK with the remaining EU member states is uncertain. In addition, spurred by the UK referendum vote, political parties in other EU member states may propose following the UK's exit from the EU, thereby raising the possibility of additional departures from the EU. Accordingly, there is a heightened risk of market instability and legal and regulatory change following the UK referendum vote.

Accounts and pooled investment vehicles advised by MSIM, as well as the Underlying Investment Funds, may make investments in the UK (before and after its departure from the EU), other EU member states and in non-EU countries that are directly or indirectly affected by the exit of the UK from the EU. Adverse legal, regulatory or economic conditions affecting the economies of the countries in which an MSIM client conducts its business (including making investments) and any corresponding deterioration in global macro-economic conditions could have a material adverse effect on the Partnership's prospects and/or returns. Potential consequences to which an MSIM client may be exposed, directly or indirectly, as a result of the UK referendum vote include, but are not limited to, market dislocations, economic and financial instability in the UK and other EU member states, increased volatility and reduced liquidity in financial markets, reduced availability of capital, an adverse effect on investor and market sentiment, Sterling and Euro destabilization, reduced deal flow in the MSIM client's target markets, increased counterparty risk and regulatory, legal and compliance uncertainties. Any of the foregoing or similar risks could have a material adverse effect on the operations, financial condition, returns, or prospects of the MSIM client, MSIM and/or sub-advisers, if any, in general. The effects on the UK, European and global economies of the exit of the UK (and/or other EU member states during the term of the MSIM client) from the EU, or the exit of other EU member states from the European monetary area and/or the redenomination of financial instruments from the Euro to a different currency, are impossible to predict and to protect fully against.

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

**Funds of Hedge Funds:**

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

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

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

may need to suspend or postpone opportunities for investor liquidity if it is unable to dispose of its interests in Investment Funds in a timely manner.

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

*Use of Derivatives:* Certain of our Funds, and some or all of their respective Investment Funds, may invest in, or enter into, derivative or derivative transactions (“Derivatives”). Derivatives are financial instruments that derive their performance, at least in part, from the performance of any underlying asset, index or interest rate. Derivative instruments include, but are not limited to futures, swaps, options and structured investments. Derivatives entered into by an Investment Fund can be volatile and involve various types and degrees of risk, depending upon the characteristics of a particular Derivative and the portfolio of the Fund or Investment Fund. Certain derivatives transactions may give rise to a form of leverage. Leverage magnifies the potential for gain and the risk of loss. If a Fund or an Investment Fund invests in Derivatives at an inopportune time or incorrectly judges market conditions, the investments may lower the return of the Fund or Investment Fund or result in a loss. A Fund or an Investment Fund also could experience losses if Derivatives are poorly correlated with its other investments, or if the Fund or Investment Fund is unable to liquidate the position because of an illiquid secondary market.

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

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

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

(commonly referred to as junk bonds), which may result in the Investment Fund's experiencing greater risks than it would if investing in higher rated instruments.

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

*Conflicts of Interest:* Due to differing objectives, differing constraints, and/or differing Investment Funds available to discretionary and non-discretionary clients, there may be circumstances when investment actions made on behalf of discretionary clients differ from the investment recommendations provided to non-discretionary clients.

### **Private Markets Funds of Funds:**

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

*Control Positions:* Certain of our Private Markets Fund of Funds Accounts may directly, or indirectly through Investment Funds and Co-Investments, take control positions in companies. The exercise of control over a company imposes additional risks of liability for environmental

damage, product defects, failure to supervise and other types of related liability. If such liabilities were to arise, such Investment Fund would likely suffer a loss, which may be complete, on its investment.

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

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

*Morgan Stanley Principal Investment Activities:* Morgan Stanley generally invests directly in private equity and real estate private equity through other divisions. As a consequence, other than Co-Investments made by certain Accounts alongside those private equity or private equity real estate fund managers into whose funds an investment team has invested on a primary basis, not every direct private equity or private equity real estate investment that meets an Account's investment objectives may be made available to our Accounts.



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

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

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

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

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

#### **Portfolio Solutions Strategies:**

In addition to the risks associated with investing in portfolios of hedge funds and private equity funds, the following risks, among others, may also apply to an Account managed by the Portfolio Solutions Group:

*Senior Loans:* Senior loans are generally rated below investment-grade by rating agencies, and entail greater credit risk than higher-quality, investment-grade securities such as U.S. Treasuries. In the event a borrower stops paying interest or principal on a loan, the collateral used to secure the loan may not be entirely sufficient to satisfy the borrower's obligations and, in some cases, may be difficult to liquidate on a timely basis. While senior loans offer higher interest income when interest rates rise, they also will generate less income when interest rates decline.

*Commodities:* Exposure to the commodities markets may result in greater volatility than investments in traditional securities, such as stocks and bonds. The commodities markets may fluctuate widely based on a variety of factors. These include changes in overall market movements, domestic and foreign political and economic events and policies, war, acts of terrorism, changes in domestic or foreign interest rates and/or investor expectations concerning interest rates, domestic and foreign inflation rates and/or investor expectations concerning

inflation rates and investment and trading activities of mutual funds, hedge funds and commodities funds.

*Fixed-Income Securities:* All fixed-income securities are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. When the general level of interest rates goes up, the prices of most fixed-income securities go down. When the general level of interest rates goes down, the prices of most fixed-income securities go up. The historically low interest rate environment increases the risk associated with rising rates, including the potential for periods of volatility. There may be a heightened level of risk, especially since the Federal Reserve Board has ended its quantitative easing and may begin to raise rates.

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

*Real Estate and Real Estate Related Securities:* Investments Funds, in which the Accounts will invest, invest in office, apartment, industrial, and other commercial real estate properties located primarily in the United States, as well as in real estate related securities. Accordingly, the investments of the Investment Funds will be subject to the risks incident to ownership and development of real estate, including risks associated with changes in the general economic climate, changes in the overall real estate market, local real estate conditions, the financial condition of tenants, buyers and sellers of properties, supply of or demand for competing properties in an area, accelerated construction activity, technological innovations that

dramatically alter space requirements, the availability of financing, changes in interest rates, competition based on rental rates, energy and supply shortages, various uninsured and uninsurable risks (including possible terrorist activity), and government regulations.

Some Investment Funds may employ leverage in connection with their operations and investments. Such leverage may be recourse to such Investment Funds. The use of leverage involves a high degree of financial risk and may increase the exposure of the Investment Funds or their investments to factors such as rising interest rates, downturns in the economy or deterioration in the condition of the properties underlying such investments.

Real estate development and repositioning is a highly competitive business which involves significant risks. In particular, because of the long lead-time between the inception of a project and its completion, a well-conceived project may, as a result of changes in real estate market, economic and other conditions prior to its completion (including as a result of the construction of competing projects), become an economically unattractive investment. It is possible that an Investment Fund may make a commitment prior to obtaining all necessary entitlements, approvals or consents and may not obtain or may incur significant costs to obtain such items. In addition, real estate development involves the risk that construction may not be completed within budget or on schedule because of cost overruns, unforeseen construction difficulties, work stoppages, shortages of building materials, and the inability of contractors to perform their obligations under construction contracts, defects in plans and specifications, failure to obtain necessary entitlements or other factors. Any delay in completing a project may result in increased interest and construction cost, the potential loss of purchasers or tenants, increased competition from other projects, and the possibility of defaults under project financings. In addition, the demand for quality commercial real estate projects is largely dependent upon the continued economic growth of the markets and submarkets in which these projects are located. There can be no assurance that such economic growth or demand for such projects will continue in the markets in which the Investment Funds make their investments or that the actual occupancy and/or rental rates for the real property underlying the Investment Funds' investments will not be less than the projected occupancy and/or rental rates used in determining whether to make such Investments. Furthermore, increased real estate development in such markets may

lead to periods of oversupply and result in vacancies, lower rentals, and lower sale prices for real estate projects.

### **Special Risks Related to Cyber Security.**

We are susceptible to cyber security risks that include, among other things, theft, unauthorized monitoring, release, misuse, loss, destruction or corruption of confidential and highly restricted data; denial of service attacks; unauthorized access to relevant systems, compromises to networks or devices that we and our service providers, if applicable, use to service our client to accounts; or operational disruption or failures in the physical infrastructure or operating systems that support us or our service providers, if applicable. Cyber-attacks against, or security breakdowns, of us or our service providers, if applicable, may adversely impact us and our clients, potentially resulting in, among other things, financial losses; our inability to transact business on behalf of our clients; violations of applicable privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs; and/or additional compliance costs. We may incur additional costs related to cyber security risk management and remediation. In addition, cyber security risks may also impact issuers of securities in which we invest on behalf of our clients, which may cause our clients' investment in such issuers to lose value. There can be no assurance that we or our service providers, if applicable, will not suffer losses relating to cyber-attacks or other information security breaches in the future.

### **Item 9 – Disciplinary Information**

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

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

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

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

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

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

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

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

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

Our affiliate, Morgan Stanley Investment Management, Inc., serves as investment adviser to the Morgan Stanley Funds, a U.S. mutual fund complex comprised of several stand-alone mutual funds as well as the following series of funds: Morgan Stanley Institutional Fund, Inc., Morgan Stanley Institutional Fund Trust, The Universal Institutional Funds, Inc., Morgan Stanley Select Dimensions Investment Series, Morgan Stanley Variable Investment Series and the Morgan Stanley Institutional Liquidity Funds, each an open-end investment company registered under the 1940 Act.

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

We are part of a group of investment advisers within the Morgan Stanley Investment Management business, including : (1) Morgan Stanley Investment Management Inc. (2) Morgan Stanley Investment Management (Japan) Co., Ltd.; (3) Morgan Stanley Investment Management Company; (4) Morgan Stanley Investment Management Limited; (5) Morgan Stanley Infrastructure, Inc.; (6) Morgan Stanley Private Equity Asia, Inc.; (7) MS Capital Partners Adviser, Inc.; (8) Morgan Stanley Real Estate Advisor, Inc.; (9) MSREF III, Inc.; (10) MSREF IV, LLC; (11) MSREF Real Estate Advisor, Inc.; (12) MSREF V, LLC; (13) MSRESS III Manager, LLC; and (14) Ceres Managed Futures LLC; (15) Morgan Stanley Asset Management Private Limited; (together, "Affiliated Advisers").

### ***Other Regulatory Affiliations:***

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

Morgan Stanley Alternative Investment Partners LP is registered as a CPO and MSIM is registered as a CPO and a CTA and a member of NFA.

We are an indirect, wholly owned subsidiary of Morgan Stanley, a corporation whose shares are publicly held and traded on the New York Stock Exchange under the ticker symbol “MS”. Morgan Stanley is a financial holding company under the Bank Holding Company Act of 1956, as amended. As a result, we are part of a large global financial services and banking group and you may have relationships with our affiliates beyond your relationship with us. These relationships can cause conflicts of interest.

### ***Conflict Identification:***

We have a conflicts of interest policy which provides that if a transaction or new product/business practice is submitted for approval to one of the Firm’s commitment or risk governance committees, or through the new product approval process, participations in those committees or processes must include consideration of potential conflicts (including those affecting other Morgan Stanley businesses) and their mitigation (which may be accomplished among other ways, through disclosure). The policy further provides that if there is any doubt about whether a business practice or transaction may present a real or perceived conflict, or how it should be addressed, the relevant manager, designated Conflicts Management Officer, the Legal and Compliance Division or the Firm’s Global Conflicts Officer must be consulted promptly.

Along with Morgan Stanley, we have established procedures intended to identify and mitigate conflicts of interest related to business activities on a worldwide basis. A conflict management



officer for each business unit and/or region acts as a focal point to identify and address potential conflicts of interest in their business area. When appropriate, there is an escalation process to senior management within the business unit, and ultimately if necessary to firm management or the firm's franchise committees, for potentially significant conflicts that cannot be resolved by the conflict management officers or that otherwise require senior management review.

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

### ***Personal Trading:***

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

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

Additionally, all MSIM employees are subject to MS firm-wide policies and procedures found in the MS Code of Conduct (the "Code of Conduct") sets forth, among other things, restrictions regarding confidential and proprietary information, information barriers, information security,

privacy and data protection, private investments, outside business interests and personal trading. All MS employees, including MSIM employees are required to acknowledge that they have read, understand, are in compliance with and agree to abide by the Code of Conduct's terms as a condition of continued employment.

***Investing for Accounts:***

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

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

From time to time, and subject to applicable law and regulation, we may manage an Account that contains Morgan Stanley "seed capital" and in those instances we may buy Investment Funds for the seed capital account along with our other Accounts. This may present a conflict of interest if an Investment Fund has limited investment capacity and is unable to accommodate our investment in the amount we request for all applicable Accounts. To ensure that each Account is treated in a fair

and equitable manner, we have adopted trade allocation procedures that we believe are reasonably designed to address these and other conflicts of interest.

When permitted by applicable law and our policies and procedures, we may cause certain of our client Accounts to engage in cross transactions. There may be potential conflicts of interest or regulatory issues relating to these transactions. Cross transactions occur if we cause an Account to buy securities or other investments from, or sell securities or other investments to, another Account that we advise. We will effect such cross trades when we believe it is desirable to buy for one client securities or investments another client owns and such trades are in the best interests of all clients involved. We do not receive any additional compensation in connection with these cross transactions; however we have a potentially conflicting division of loyalties and responsibilities to the parties to such transactions. Any cross transactions are effected in accordance with our fiduciary duty and applicable law. In addition, we have procedures in place to ensure that the clients on either side of a cross trade are treated fairly.

## **Item 12 – Brokerage Practices**

Due to the nature of the investments we make, broker-dealers are generally not used for client transactions and we do not enter into soft dollar arrangements. However, we may use affiliated or non-affiliated broker-dealers to divest assets distributed in kind to the Accounts by Investment Funds or direct co-investments. Non-affiliated broker-dealers are sometimes used when an underlying fund manager or co-investment sponsor arranges for shares to be distributed in kind through a particular broker-dealer. In such circumstances, when the chosen broker-dealer offers to sell our shares on or very shortly after the distribution date, we evaluate (i) how quickly that broker-dealer can open accounts for the purpose of facilitating the sales and (ii) the relative advantages of having the shares sold by that broker-dealer.

In limited circumstances, we may use independent brokers who offer asset purchase opportunities to us in certain secondary transactions. In these instances, we allocate all fees and/or commissions related thereto *pro rata* (based on investment /commitment account) to the participating Accounts. Fees and/or commissions payable are generally negotiated by us or a

third party syndication partner (e.g., Goldman Sachs). All such fees and/or commissions are customary in the market place and typical with these types of transactions.

*Trade Allocation:*

Investment decisions for each client (or group of clients with a similar investment objective) are made independently from those of other clients and are made with specific reference to the individual needs and objectives of each client. Because investment decisions frequently affect more than one client, it is inevitable that at times a Portfolio Manager will desire to acquire or dispose of the same limited partnership interest for more than one client at the same time. To the extent that a Portfolio Manager seeks to acquire the same limited partnership interest at the same time for more than one client, it may not be possible to acquire a sufficiently large quantity of the security. Similarly, clients may be unable to redeem out of an underlying fund at the same time if the underlying fund has redemption restrictions. An investment in an Underlying Investment Fund may be allocated to some, but not all, clients, at the discretion of the Investment Committee, in accordance with the investment guidelines applicable to the client and based on such considerations as the Investment Committee deems appropriate. If an Underlying Investment Fund's capacity to accept investment capital is less than the amounts specified by the Investment Committee, the allocations shall be modified generally by allocating the Investment Fund's capacity pro-rata among clients.

**Item 13 – Review of Accounts**

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

If you are an investor in our Funds, reports are generally sent monthly or quarterly (funds of hedge funds) or in the case of Private Markets Funds of Funds quarterly or semi-annually. If you

are an investor with our PSG group, reports are generally sent monthly or quarterly. Among other things, these reports may consist of monthly, quarterly or semi-annual performance information, unaudited financial statements and/or audited annual statements.

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

The review process for Hedge Fund Solutions is performed by a portfolio management committee. Reviews of the customized portfolio accounts are conducted on a periodic basis. Hedge Fund Solutions provides supplemental client reporting on a mutually agreed upon time frame as defined in the investment management agreement.

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

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

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

### **Item 15 – Custody**

We are deemed to have “custody” of the assets of the Funds for which an affiliate serves as general partner and in each case we will comply with the custody requirements under the Advisers Act. In those cases, the Funds will provide audited financial statements to investors on an annual basis in accordance with generally accepted accounting principles within 120 days of the end of the Fund’s fiscal year. Additionally, we further may be deemed to have custody for those accounts that elected to engage MSSB to serve as custodian. We may also be deemed to have “custody” over our client accounts from which we are authorized to deduct fees or other expenses.

### **Item 16 – Investment Discretion**

For separate accounts, we typically receive discretionary authority from the client at the outset of the relationship to select the identity and amount of investments to be bought or redeemed. This authority is granted in the investment management agreement. In all cases, however, such discretion is exercised in a manner consistent with the stated investment objectives and guidelines for the separate account. As discussed under Item 12 of this Brochure, you may impose certain limitations on our use of broker-dealers.

When selecting investments, we adhere to the investment policies, limitations and restrictions of each Account as set forth in the investment management agreement or relevant offering document, as applicable. For registered investment companies, our authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made. Investment guidelines and restrictions and any amendments thereto must be provided to us in writing.

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

Along with certain of our affiliates, we have adopted a Proxy Voting Policy (the "Policy"). Note that due to the nature of the investments we make (generally, private funds), certain provisions of the Policy will not apply. For purposes of this section, "we" refers to us and our affiliates who participate in the Policy. With respect to our registered investment companies, we vote proxies under the Policy pursuant to authority granted under the applicable investment advisory agreement or, in the absence of such authority, as authorized by the Board of Directors/Trustees of the AIP Funds. We will not vote proxies unless the investment management or investment advisory agreement explicitly authorizes us to vote proxies.

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

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

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

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

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

We examine a range of issues - including proxy contests and proposals relating to mergers, acquisitions and other special corporate transactions - on a case-by-case basis in the interests of each fund or other account. We support substantial management/board discretion on capital structure, but within limits that take into consideration articulated uses of capital, existence of preemptive rights, and certain shareholder protections provided by market rules and practices. We are generally supportive of reasonable shareholder rights.

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

We reserve the right to depart from the Proxy Voting Policy to avoid voting decisions that it believes may be contrary to the clients' best interests. In addition, we 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.



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

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

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

### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about our financial condition. We are not aware of any financial condition that impairs our ability to meet contractual and fiduciary commitments to you, and has not been the subject of a bankruptcy proceeding.