

## Part 2A of Form ADV: Firm Brochure

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MS Capital Partners Adviser Inc. as Adviser to  
Morgan Stanley Venture Partners Fund III  
MSDW Venture Partners IV, LLC  
Morgan Stanley Venture Partners 2002  
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March 29, 2017

This Brochure provides information about the qualifications and business practices of MS Capital Partners Adviser Inc. (the “Adviser”). If you have any questions about the contents of this Brochure, please contact Morgan Stanley Investment Management Investor Services at (212) 761-7160 or email [vc\\_investor@morganstanley.com](mailto:vc_investor@morganstanley.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

The Adviser is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information that may help you determine whether to hire or retain an adviser.

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

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## **Item 2 – Material Changes**

We provide this brochure to our clients as well as limited partners of the following pooled investment vehicles that we advise: (i) Morgan Stanley Venture Partners Fund III; (ii) MSDW Venture Partners IV, LLC; and (iii) Morgan Stanley Venture Partners 2002; and their related funds (together, “Limited Partners”). There have been no material updates since the last annual update of this Brochure, which was dated March 30, 2016.

We will provide clients and Limited Partners with a new Brochure as necessary based on material changes or new information, at any time, without charge upon request.

Our Brochure may be requested by contacting Morgan Stanley Investment Management Investor Services at 212-761-7160 or email [vc\\_investor@morganstanley.com](mailto:vc_investor@morganstanley.com).

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#### **Item 4 – Advisory Business**

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

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

As of December 31, 2016, the Adviser had approximately \$4,237,128,227 of regulatory assets under management, all of which are managed on a discretionary basis.

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

The Funds’ investment objective is to achieve attractive risk-adjusted returns primarily through investing in equity, equity-related and similar securities (including debt or other securities with equity like returns or an equity component) acquired in privately negotiated transactions. The Funds have been permitted to make investments in portfolio companies indirectly by investing through partnerships (or other investment vehicles). The Funds have generally focused on investment opportunities where it can acquire a significant minority ownership position. The Funds have also been permitted to make investments in debt or publicly-traded securities, and assets or instruments related to the foregoing.

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## **Item 5 – Fees and Compensation**

### **For the Venture III Funds**

#### ***Management Fees and Carried Interest***

The general partner may amend the agreement to reduce management fees otherwise payable.

Morgan Stanley Venture Partners III, L.L.C. (“Venture Partners LLC”), which is the general partner of Morgan Stanley Venture Partners III, L.P., Morgan Stanley Venture Investors III, L.P. and The Morgan Stanley Venture Partners Entrepreneur Fund, L.P. (together the “Venture III Partnerships”), and is controlled by Morgan Stanley Venture Capital III, Inc., is paid an annual management fee by the Venture III Partnerships. The annual fee payable was initially calculated as 2% of the committed capital of each Venture III Partnerships’ limited partner. Commencing on the sixth anniversary of the initial closing of the Venture III Partnerships, the management fee has been reduced by 0.25% each year until it equaled 1.5%. After approximately September 2003, the management fee had been limited to 2.5% of the cost basis of the Venture III Partnerships’ remaining investments. The Venture III Partnerships ceased paying management fees as of January 2013.

Venture Partners LLC is entitled to receive an amount equal to 20% (15% in the case of limited partners who are employees of Morgan Stanley or its affiliates) of each Venture III Partnerships’ profits. No performance fee is received in connection with advisory services provided to Morgan Stanley Venture Partners Entrepreneur Fund, L.P. (the “Entrepreneur Fund”) (see also “Co-Investments” below for additional information on the fees and expenses relating to co-investments).

Because the Adviser invests in long-term private equity securities, granting a limited partner the right to short-term redemptions could adversely affect the objectives of the Venture III Partnerships and the interests of all investors. Accordingly, under the relevant partnership agreement, no limited partner has the right to (i) receive any refund of any advisory fee or (ii) terminate its obligations under a partnership agreement, or otherwise withdraw from a Venture III Partnership, prior to such Venture III Partnerships’ termination (except for limited withdrawal rights of partners subject to ERISA).

Fees may be deducted from clients’ assets as set forth in the limited partnership agreements of the Venture III Partnerships (the “Venture III Partnership Agreement”). Management fees are payable quarterly in advance. Performance fees are calculated and made to Venture Partners LLC out of the proceeds distributed to limited partners.

#### ***Transaction Based Compensation***

The Adviser and its professionals may charge portfolio companies transaction fees, sponsor fees, monitoring fees, advisory fees, directors’ fees, commitment fees, closing fees, amendment fees, break up fees and other similar fees. An amount equal to each Venture III Partnership’s limited partner’s share of such fees paid by portfolio companies that are received by the Adviser or any of its employees, net of any unreimbursed expenses incurred by the Adviser or its affiliates in connection with

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unconsummated transactions, will be applied to reduce the management fee otherwise payable by such Venture III Partnership limited partner. All such fees will first be allocated among the Venture III Partnership limited partners and any other investors on the basis of capital committed by each to the relevant investment. Management fee reductions will be carried forward if necessary.

### ***Other Fees and Expenses***

In addition to the management fee and the carried interest, pursuant to the Venture III Partnership Agreement, the Venture III Partnerships generally bear their own expenses, including organizational and syndication expenses; legal, accounting, audit, custodial and other professional fees; banking, brokerage, broken-deal, registration, finders, depositary and similar fees or commissions; transfer, capital and other taxes, duties and costs incurred in acquiring, holding, selling or disposing of assets; insurance premiums, indemnifications and costs of litigation; cost of reports to partners and annual or special meetings; and interest expenses.

### **For the Venture IV Funds**

#### ***Management Fees and Carried Interest***

Through the end of the Morgan Stanley Dean Witter Venture Partners IV, L.P. and its related funds' (together, the "Venture IV Partnerships") investment period, the Adviser will generally receive an annual management fee by each Venture IV Partnership, which is funded by the Venture IV Partnerships' limited partners. The fee payable by each limited partner is initially calculated as 2% of the committed capital of such Venture IV Partnerships' limited partner. Commencing on the earlier of: (i) the sixth anniversary of the initial closing of the Venture IV Partnerships and (ii) the initial closing date of any successor fund, the management fee has been reduced by 0.25% each year until it equaled 1.5%. Since approximately October 2006, the management fee has been limited to 2.5% of the cost basis of the Venture IV Partnerships' remaining private investments. Effective September 29, 2012, the management fee is calculated based on 1.5% of the cost basis of private investments held as of the previous quarter's end. Upon termination of the management agreement between the Adviser and the relevant Venture IV Partnership, the Adviser shall repay to such Venture IV Partnership or to a replacement manager, as directed by the general partner of the Venture IV Partnerships, the unearned portion (computed on the basis of the number of days elapsed), if any of the Management fees previously paid to the Adviser.

MSDW Venture Partners IV, LLC (the "Venture IV GP") is generally entitled to carried interest equal to 25% of all realized income, gain and losses with respect to the portfolio securities of the Venture IV Partnerships, except for Morgan Stanley Dean Witter Venture Investors IV, L.P. and Morgan Stanley Dean Witter Venture Offshore Investors IV, L.P. (collectively, the "Venture IV Employee Funds"). The Venture IV GP is entitled to carried interest equal to 12.5% of all realized income, gain and losses with respect to the portfolio securities of the Venture IV Employee Funds.

Fees may be deducted from clients' assets as set forth in the limited partnership agreements of the

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Venture IV Partnerships (the “Venture IV Partnership Agreement”). The management fee is payable quarterly in advance. Carried interest distributions are calculated and made to the Venture IV GP out of the proceeds at the time of distribution to the Venture IV Limited Partners (see also “Co-Investments” below for additional information on the fees and expenses relating to co-investments).

### ***Transaction Based Compensation***

The Adviser and its professionals may charge portfolio companies transaction fees, sponsor fees, monitoring fees, advisory fees, directors’ fees, commitment fees, closing fees, amendment fees, break up fees and other similar fees. An amount equal to each Venture IV Partnerships’ limited partner’s share of such fees paid by portfolio companies that are received by the Adviser or any of its employees, net of any unreimbursed expenses incurred by the Adviser or its affiliates in connection with unconsummated transactions, will be applied to reduce the management fee otherwise payable by such Venture IV Partnerships limited partner. All such fees will first be allocated among the Venture IV Partnerships’ limited partners and any other investors on the basis of capital committed by each to the relevant investment. Management fee reductions will be carried forward if necessary.

### ***Other Fees and Expenses***

In addition to the management fee and the carried interest, pursuant to the Venture IV Partnership Agreement, the Venture IV Partnerships generally bears its own expenses, including organization and syndication expenses; legal, accounting, audit, custodial and professional fees; banking, brokerage, broken-deal, registration, finders, depositary and similar fees or commissions; transfer, capital and other taxes, duties and costs incurred in acquiring, holding, selling or otherwise disposing of assets, insurance premiums, indemnifications and costs of litigation, cost of reports to partners and annual or special meetings; and interest expenses.

### ***For the 2002 Funds***

All fees are non-negotiable.

### ***Management Fees and Carried Interest***

The Adviser is paid an annual management fee by the Morgan Stanley Venture Partners 2002 Fund (the “Main Fund”) and Morgan Stanley Venture Investors 2002 Fund L.P. (the “2002 Employee Fund”) and together with the Main Fund, the “2002 Funds”), which is funded by the limited partners. The fee payable by each limited partner was initially calculated as 2% of the committed capital of such limited partner. Commencing on the earlier of (i) the sixth anniversary of the 2002 Fund’s first investment and (ii) the initial closing date of any successor fund, the management fee was reduced by 0.25% each year until equal to 1.50%; provided that the management fee beginning with the seventh anniversary of the 2002 Partnerships’ first investment has not exceeded 2.50% of the cost basis of the 2002 Fund’s remaining private investments.

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MSVP 2002 Fund, LLC, the general partner of the 2002 Funds, (together with Venture Partners LLC and Venture IV GP, the “General Partners”) is entitled to receive a carried interest equal to 20% from the 2002 Funds and, generally, 10% from the 2002 Employee Fund (or 25% and 12.5%, respectively, if both (i) the internal rate of return on the 2002 Funds’ portfolio is at least 25%, and (ii) the limited partners have received aggregate distributions from the 2002 Funds in an amount that is no less than 225% of their aggregate capital contributions to the 2002 Funds) of the 2002 Funds’ profits.

Advisory fees may be deducted from clients’ assets as set forth in the limited partnership agreements of the 2002 Funds (the 2002 “Partnership Agreements”). Management fees are payable quarterly in advance. Carried interest distributions are calculated and made to the general partner out of the investment proceeds at the time of distribution to partners (see also “Co-Investments” below for additional information on the fees and expenses relating to co-investments).

Because the Adviser invests in long-term private equity securities, granting a limited partner the right to short-term redemptions could adversely affect the objectives of 2002 Funds and the interests of all investors. Accordingly, under the relevant partnership agreements, no limited partner has the right to (i) receive any refund of any advisory fee or (ii) terminate its obligations under a partnership agreement, or otherwise withdraw from a 2002 Fund, prior to the 2002 Funds’ termination (except for limited withdrawal rights of certain regulated partners).

### ***Transaction Based Compensation***

The Adviser and its professionals may charge portfolio companies transaction fees, sponsor fees, monitoring fees, advisory fees, directors’ fees, commitment fees, closing fees, amendment fees, break up fees and other similar fees. An amount equal to each 2002 Fund’s limited partner’s share of all such fees paid by portfolio companies that are received by the Adviser or any of its employees, net of any unreimbursed expenses incurred by the Adviser or its affiliates in connection with unconsummated transactions, will be applied to reduce the management fee otherwise payable by such 2002 Fund’s limited partner. All such fees will first be allocated among the 2002 Fund’s limited partners and any other investors on the basis of capital committed by each to the relevant investment. Management fee reductions will be carried forward if necessary.

### ***Other Fees and Expenses***

In addition to the management fee and the carried interest, pursuant to the 2002 Partnership Agreements for the relevant 2002 Fund, such 2002 Fund generally bears its own expenses, including organizational and syndication expenses; legal, accounting, audit, custodial and other professional fees; banking, brokerage, broken-deal, registration, finders, depositary and similar fees or commissions; transfer, capital and other taxes, duties and costs incurred in acquiring, holding, selling or disposing of assets; insurance premiums, indemnifications and costs of litigation; cost of reports to partners and annual or special meetings; and interest expenses.



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## **All Funds**

### ***Co-Investments***

The terms of a co-investment applicable to one co-investor may be different than the terms applicable to another co-investor, including that certain co-investors may be required to pay a carried interest and/or management fees while other co-investors (including affiliates of Morgan Stanley) may not be required to pay such amounts. The Adviser or each General Partner may or may not charge management fees, one time funding fees and/or carried interest in respect of co-investments, subject to the terms of any applicable agreements with investors. The allocation of any co-investment opportunities may directly or indirectly benefit the Adviser or a General Partner as a result of, among other things, the receipt of any such fees or carried interest, capital commitments to a Fund and capital commitments to other Affiliated Investment Accounts (as hereinafter defined). Co-investors in one or more specific investments will not necessarily be required to share in broken-deal expenses that are paid by a Fund, either with respect to a co-investment opportunity that is not consummated or with respect to other potential investments that may be offered to a Fund. The performance of co-investments is not aggregated with that of the Funds, including for purposes of determining a General Partner's carried interest or the Adviser's management fees under the respective partnership agreement. See also "Allocation of Co-Investment Opportunities" in Item 11 below for additional information on the allocation of co-investment opportunities.

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

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

The private placement memorandum for each of the Funds includes further details on fees and compensation and related matters.

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

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

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## **Item 7 – Types of Clients**

The Adviser provides portfolio management services to pooled investment vehicles. These pooled investment vehicles are not subject to regulation under the Investment Company Act of 1940, as amended (the “Investment Company Act”). In addition, limited partner interests in a partnership may be purchased only by certain eligible investors who are “accredited investors” as defined in Regulation D of the Securities Act of 1933, as amended, and “qualified purchasers” for purposes of Section 3(c)(7) of the Investment Company Act.

### **For the Venture III Funds**

Generally, Venture III Partnerships institutional investors must invest a minimum of \$5,000,000 and individual investors must invest a minimum of \$2,000,000. The Venture III Partnerships’ general partner reserves the right to waive this requirement in its discretion.

### **For the Venture IV Funds**

Generally, Venture IV Partnerships institutional investors must invest a minimum of \$5 million and individual investors must invest a minimum of \$1 million. The Venture IV Partnerships’ general partner reserves the right to waive this requirement in its discretion.

In the case of the Venture IV Employee Fund, interests have been offered and sold to investors who are “accredited investors” as defined in Regulation D of the Securities Act and in accordance with the requirements of an exemptive order under the Investment Company Act received by Morgan Stanley from the United States Securities and Exchange Commission in April 2000.

### **For the 2002 Fund**

Generally, 2002 Fund investors must invest a minimum of 50% of their capital commitment to the MSDW Venture Partners IV, Inc. Fund, which the Adviser also manages. The 2002 Funds’ general partner reserves the right to waive this requirement in its discretion.

In the case of the 2002 Employee Fund, interests have been offered and sold to investors who are “accredited investors” as defined in Regulation D of the Securities Act and in accordance with the requirements of an exemptive order under the Investment Company Act received by Morgan Stanley from the United States Securities and Exchange Commission in April 2000.

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

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

The Funds' investment periods have terminated. The Funds' investment objective is to achieve attractive risk-adjusted returns primarily through investing in equity, equity-related and similar securities (including debt or other securities with equity-like returns or an equity component) acquired in privately negotiated transactions. The Funds have, from time to time, made investments in portfolio companies indirectly by investing through partnerships (or other investment vehicles). The Funds generally have focused on investment opportunities where they can acquire a significant minority ownership position. The Funds have been permitted to make investments in debt or publicly-traded securities, and assets or instruments related to the foregoing. For the Venture IV Partnerships, for certain investments such as leveraged buyouts, the Venture IV Partnerships may acquire a majority ownership position.

The Adviser's main sources of information and investment opportunities have been contacts with employees of Morgan Stanley and Morgan Stanley's network of clients, executives, partners and other industry participants.

From time to time, the Adviser may cause each Fund to invest cash held by a Fund in temporary investments or to employ hedging techniques to reduce the risk of adverse interest rate, currency, credit or security movements on investments.

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

Investing in securities involves risk of loss that clients should be prepared to bear. The Adviser cannot provide assurance that it will be able to generate any level of returns for investors. The Adviser's investment strategy entails a high degree of risk and is suitable only for sophisticated investors who fully understand and are capable of bearing the risks of an investment in the relevant Fund.

The following list of risk factors does not purport to be a complete list or explanation of the risks involved in an investment in a Fund. The risks summarized below are described in greater detail in the relevant private placement memoranda for the Funds. In addition, there are other risks (in addition to risks related to our investment strategy) associated with investing in a Fund, which are described in the relevant private placement memorandum. You may also request an updated explanation of risk factors by contacting Morgan Stanley Investment Management Investor Services as described above.

- Inability to meet investment objective or execute investment strategy;
- Potential loss of invested capital;
- Reliance on expertise of Morgan Stanley investment professionals;
- Highly competitive markets and prevailing regulatory or political climates;

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- Illiquidity of investments;
  - Little or no current return on investments prior to their disposition;
  - Significant degree of financial and/or business risk;
  - Lack of diversification;
  - Volatility of the global fixed income and equity markets;
  - Lack of protection by financial covenants in debt investments;
  - Leverage at the level of the Fund and/or portfolio companies;
  - Adverse political developments and regulation in foreign countries;
  - Potential inability to protect the value of minority equity investments;
  - Reliance on portfolio company management;
  - Exposure to portfolio company and related party claims;
  - Potential liabilities related to portfolio company restructurings;
  - Use of hedging techniques;
  - Changes in general economic conditions and global economic and political events;
  - Potential liquidating distributions of restricted or otherwise illiquid securities to investors;
  - Limitations on transfer and withdrawal;
  - Cybersecurity risks;
  - Risks associated with making venture capital investments, non-U.S. investments and minority investments;
  - Risks associated with the realization and disposition of investments;
  - Risks associated with required regulatory clearance and approval for healthcare investments;
  - Catastrophic and other force majeure events; and
  - Legal and regulatory risks, including: investment restrictions related to a Fund's operation as a VCOC within the meaning of ERISA and burdensome regulation by one or more governmental entities in specific industries.

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

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**Item 9 – Disciplinary Information**

The Adviser has no information applicable to this Item.

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

### **Introduction**

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

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

### **Broker-Dealer Registration**

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

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

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

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

- Other Advisory Affiliates

The Adviser is part of a group of investment advisers within the Morgan Stanley Investment Management business, including Morgan Stanley Investment Management Inc., Morgan Stanley Investment Management Limited, Morgan Stanley Investment Management (Japan) Co., Ltd., Morgan Stanley AIP GP LP, Morgan Stanley Asset Management Private Limited, Morgan Stanley Real Estate Advisor, Inc., Morgan Stanley Infrastructure, Inc., Morgan Stanley Private Equity Asia, Inc., MSREF III, Inc., MSREF IV, L.L.C., MSREF V, L.L.C., MSREF Real Estate Advisor, Inc., and MSRESS III Manager, L.L.C.



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The Adviser, in its discretion, may delegate all or a portion of its advisory or other functions to any affiliate that is registered with the SEC as an investment adviser and may receive a variety of services from such affiliates, including gathering information about potential investment opportunities, financial advice and assistance in connection with the making, monitoring and disposing of investments and securities underwriting and brokerage services in connection with the sale of investments. The Adviser shares certain officers and directors with related investment advisers that also manage affiliated private equity funds.

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

- Affiliates Acting as Fundraising Broker-Dealers

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

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

The Adviser and the Funds may use registered representatives and/or employees of its affiliates to conduct solicitation activities in relation to new or incoming Limited Partners to the Funds or act as placement agents.

- Affiliates Acting as Investment Bankers

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

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

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

In addition, Morgan Stanley could provide investment banking services to competitors of companies in which each of the Funds invest, in which case it will take appropriate steps to safeguard the confidential information of each investment banking client. Morgan Stanley is under no obligation to share and, in fact, may be prohibited by applicable law, from sharing any confidential or material non-public information with any of the Funds or the Adviser. Such activities may present Morgan Stanley with a conflict of interest vis-à-vis a Fund's portfolio companies and may also result in a conflict with respect to the allocation of investment banking resources to portfolio companies. Alternatively, any material non-public information about a potential investment or portfolio company in which Morgan Stanley comes into possession may preclude a Fund from pursuing an investment or exit opportunity with respect to such portfolio company or investment.

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

- Other Limited Partnership Investment Vehicles or Funds

- General; Carried Interests

The Adviser is the manager of the Funds and serves as the managing member of the Funds. The Adviser and/or certain related persons have and may continue to organize other partnerships and serve as the manager, general partner, or the managing member or general partner of the general partner, to these partnerships. In organizing these partnerships, the Adviser or a related person may be deemed to have been or to be soliciting investors.

Each General Partner's carried interest may create an incentive for such General Partner to make more speculative investments for the relevant Fund than it would otherwise make in the absence of such performance-based distributions. Furthermore, investments made with third parties in joint ventures or other entities may involve carried interests and/or other fees payable to such

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third party partners of co-investors, which could also create an incentive for such parties to take risks with respect to such investments. In addition, the method of calculating the carried interest may result in conflicts of interest between the relevant General Partner, on the one hand, and the investors, on the other hand, with respect to the management and disposition of investments. For example, the relevant General Partner will value any securities being distributed in-kind to investors in order to calculate the carried interest. If the valuations conducted by a General Partner are incorrect, the amount of payment of its carried interest could be incorrect.

- Morgan Stanley Investments and Affiliated Investment Accounts

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

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

In some cases, Morgan Stanley or an Affiliated Investment Account may invite one or more of the Funds to co-invest with it or a Fund’s General Partner may invite Morgan Stanley or an Affiliated Investment Account to co-invest with one or more of the Funds, in either the same or different tiers of a portfolio company’s capital structure or in an affiliate of such portfolio company. To the extent the relevant Fund holds investments in the same portfolio company or in an affiliate thereof that are different (including with respect to their relative seniority) than those held by Morgan Stanley or an Affiliated Investment Account, the Adviser and Morgan Stanley may be presented with decisions when the interests of the two co-investors are in conflict. See also “Allocation of Co-Investment Opportunities” in Item 11 below for additional information on the allocation of co-investment opportunities.

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- Other Morgan Stanley Investment Management Activities

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

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

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

- Management Persons

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

Certain of the Adviser’s management persons may also hold positions with the affiliates listed above. In these positions, those management persons of the Adviser may have some responsibility with respect to the business of these affiliates and the compensation of these management persons may be based, in part, upon the profitability of other affiliates.

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Additionally, these management persons may come into possession of confidential non-public information and may be recused from certain investment-related discussions, including investment committee meetings, so that such members do not receive information that would limit their ability to perform functions of their employment with Morgan Stanley unrelated to the Funds. Consequently, in carrying out their roles with the Adviser or any of the Funds and these other entities, the management persons of the Adviser may be subject to the same or similar conflicts of interest that exist between the Adviser and these affiliates.

### **Conflict Identification and Mitigation**

Morgan Stanley and the Adviser have established procedures intended to identify and mitigate conflicts of interest related to business activities on a worldwide basis. A conflict management officer for each business unit and/or region acts as a focal point to identify and address potential conflicts of interest in their business area. When appropriate, there is an escalation process to senior management within the business unit, and ultimately if necessary to Firm management or the Firm's conflict and franchise committees, for potentially significant conflicts that cannot be resolved in the ordinary course or that otherwise require senior management review. In addition, the Adviser addresses conflicts through disclosure to its investors and should any transactions that present a potential conflict of interest actually arise, the Adviser may in certain situations choose to seek the approval of the investors, limited partners and/or advisory committee for the respective fund with respect to conflicts of interest or approvals required under the Advisers Act, including Section 206(3) and/or the relevant partnership agreement. The Adviser may also choose to seek the approval of Limited Partners of the applicable Fund with respect to certain conflict situations or matters under the Advisers Act.

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

The Adviser has adopted a Code of Ethics (the “Code”) pursuant to Rule 204A-1 under the Advisers Act, applicable to persons who are supervised by the Adviser or support the Adviser in providing investment advice to the Funds or their respective General Partners or, and who have access to non-public information regarding the purchase or sale of securities, or who make securities recommendations to the Funds or their respective General Partners, or who have access to such recommendations that are non-public (“Access Persons”). Each Access Person is required to acknowledge the Code at the inception of his/her employment and annually thereafter. The Code is designed to make certain that all acts, practices and courses of business engaged in by Access Persons are conducted in accordance with the highest possible standards and to prevent abuse, or even the appearance of abuse, by Access Persons with respect to their personal trading and other business activities.

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

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

Copies of the Code are available upon request from the Adviser.

### **Personal Trading and Investments**

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

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

We recommend that current or prospective investors invest in our Funds. Prior to subscribing for interests in a Fund, investors receive information relating to potential conflicts of interest between the activities of the Fund and the business activities of the Adviser, and its affiliates, or clients that may have a financial interest in the securities in which the Fund invests.

On rare occasions, a Fund may sell a security or asset which another fund, or an affiliate of the Adviser,

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wants to own. On these occasions, after extensive Firm and legal and compliance review and documentation, a sale of the security or asset from one fund to another may be permitted.

The Adviser may purchase and sell public and private investments and co-invest the assets of the clients alongside other funds and accounts managed by the Adviser or its affiliates in compliance with the requirements and conditions of rules, regulations, orders, or interpretations of the SEC, or no-action letters of the SEC Staff, and in accordance with fund and client account governing documents.

### **Allocation of Investment Opportunities**

The Adviser has a governance process in place to ensure that each client is treated in a fair and equitable manner. The following factors will be considered, as appropriate, in connection with allocation decisions:

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

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

Each General Partner of each Fund may offer co-investment opportunities with respect to none, some or all of a Fund’s investments. In the event that a General Partner offers co-investment opportunities, such opportunities will be offered pursuant to the terms of the applicable partnership agreement. With respect to certain of the Funds, certain of the investors may have priority rights (but not obligations) to participate in co-investment opportunities, subject to the terms and conditions of the applicable partnership agreement, subscription agreement, side letter agreement or other agreement setting forth such priority rights. After the allocation of co-investment opportunities to such investors with priority rights to co-investment opportunities (if any), a General Partner may allocate the remainder (if any) of co-investment opportunities among interested parties in its sole discretion including for example, on the basis of the size of investor commitments to a Fund and other Affiliated Investment Accounts as well as a broad range of other considerations, including, commercial considerations for the applicable portfolio investment, a Limited Partner’s stated desire to participate in co-investments, the General Partner’s determination of the appropriateness of offering a co-investment opportunity, an investor’s ability to

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execute such offer and the approval of transaction counterparties. There can be no assurances with respect to the amount of any co-investment opportunity that will be made available to a Limited Partner in connection with a Fund, and there is no guarantee, prediction or projection of the availability to a limited partner of future co-investment opportunities.

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

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



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## **Item 12 – Brokerage Practices**

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

The Adviser will only consider engaging in a principal or cross transaction with Morgan Stanley & Co. LLC or its affiliates on behalf of a Fund or client to the extent permitted by applicable law.

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

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### **Item 13 – Review of Accounts**

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

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

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

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

The Adviser may have from time to time compensated placement agents (which may include certain of its affiliates) in return for referrals of Limited Partners. Any additional compensation paid specifically for such referrals will meet the requirements of Rule 206(4)-3 under the Advisers Act, if applicable.

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**Item 15 – Custody**

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

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**Item 16 – Investment Discretion**

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

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

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

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

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

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

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

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

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

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**Item 18 – Financial Information**

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