

Form ADV, Part 2A Brochure

MORGAN STANLEY INVESTMENT MANAGEMENT INC.

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This brochure (the “Brochure”) provides information about the qualifications and business practices of Morgan Stanley Investment Management Inc. (“MSIM”). If you have any questions about the contents of this Brochure, please contact us at (212) 296-7045. 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.

MSIM is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about MSIM is also available on the SEC’s website at www.adviserinfo.sec.gov

ITEM 2 MATERIAL CHANGES

While there have been no material changes to this Brochure since it was last updated on February 15 , 2018, we have made certain routine updates.

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ITEM 4 ADVISORY BUSINESS

MSIM and its advisory affiliates represent the investment management division of Morgan Stanley, a publicly held company ("Morgan Stanley"). We are a wholly owned subsidiary of Morgan Stanley, a corporation whose shares are publicly held and traded on the New York Stock Exchange under the symbol "MS". Morgan Stanley is a preeminent global financial services firm engaged in securities trading and brokerage activities, as well as providing investment banking, research and analysis, financing and financial advisory services. MSIM is organized as a Delaware corporation and has been registered with the SEC since 1981.

Overview

We are a client-centric organization dedicated to providing investment and risk-management solutions to a wide range of investors and institutions including corporations, pension plans, intermediaries, sovereign wealth funds, central banks, endowments and foundations, individual investors (including high net worth), governments and consultant partners worldwide. With over four decades of asset management experience, our investment strategies span the risk/return spectrum across geographies, investment styles and asset classes, including equity, fixed income, alternatives and private markets. MSIM offers its clients personalized attention, the intelligence and creativity of some of the brightest professionals in the industry, and access to the global resources of Morgan Stanley.

We provide discretionary and non-discretionary investment management services and products to institutional clients and individual investors. We may also advise clients on a discretionary and non-discretionary basis as to the appropriate allocation of assets among multiple separate accounts and/or investment companies or other pooled vehicles that we advise ("asset allocation advice"). As a diversified global financial services firm that 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, you should be aware that there will be occasions when Morgan Stanley may encounter potential conflicts of interest in connection with its investment management services.

Our fund of funds advisory and portfolio solutions business focuses on the discretionary and, in certain instances, non-discretionary investment management of accounts across three strategies: (1) fund of hedge funds; (2) private markets fund of funds; and (3) portfolio solutions.

Our fund of funds 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 and separate accounts on a discretionary and nondiscretionary basis. The underlying funds or accounts in which we invest are referred to throughout as the "Underlying Investment Funds" and the third party investment managers who manage the Underlying Investment Funds are referred to as the "Underlying Investment Managers".

The portfolio solutions business implements investment advice by integrating traditional and non-traditional investments through a single portfolio construction, philosophy and approach.

We may also act as a fiduciary adviser, a "manager of managers", for large pools of assets. In that role we assist the client in establishing the investment policy and guidelines and restrictions. In addition, we make and implement asset allocation decisions; and select, supervise and monitor the managers, which may include affiliated and non-affiliated entities. As fiduciary adviser, we will report to the fiduciary or other person responsible for the overall management of the large pool of assets.

Our investment advisory services are available through various bundled “wrap fee” programs (“Wrap Fee Programs”) sponsored by certain broker-dealers (“Sponsor(s)”), including affiliates of MSIM, to individual investors, including high net worth investors. As used herein, the term Sponsor includes overlay managers to the extent a Wrap Fee Program utilizes an overlay manager.

For a single “wrap” fee (a portion of which is paid to the Sponsor and a portion of which is received by us) the Sponsors offer our investment advisory services to their separately managed account clients and are generally, depending on the program, primarily responsible for:

- i. Monitoring and evaluating our performance;
- ii. Executing client portfolio transactions typically without additional commission charge (except that the client will be charged an added commission charge if we use a broker other than the Sponsor to execute trades);
- iii. Providing custodial services for clients’ assets;
- iv. Ensuring adherence to client guidelines, restrictions and/or client instructions; and/or
- v. Providing tax management services.

We may participate in certain Wrap Fee Programs pursuant to which we provide the Sponsors with a model portfolio that represents the securities we recommend in accordance with a particular investment strategy (the “Model Portfolio”). In most instances, we will communicate our recommendations comprising the Model Portfolio, and any changes thereto, to the Sponsors, who will serve as investment advisers to the Wrap Fee Program clients and will be responsible for implementation of any client-specific investment restrictions and for determining the suitability of our investment strategy for the client. Accordingly, the Sponsor will exercise investment discretion with respect to securities that are purchased or sold for clients of such Model Portfolio Wrap Fee Programs and will be responsible for executing trades and seeking best execution for such Wrap Fee Program accounts.

For additional information regarding the specific investment strategies we employ please refer to Item 8, “Methods of Analysis, Investment Strategies and Risk of Loss” in this Brochure.

Assets Under Management

As of December 31, 2017 we managed approximately \$299,514,013,543 on a discretionary basis and \$3,028,669,821 on a non-discretionary basis, totaling \$302,542,683,364 of assets under management or supervision.

ITEM 5 FEES AND COMPENSATION

Management Fees

Our fees may vary from the applicable schedules, attached as Appendix A, due to the particular circumstances of the client or as otherwise negotiated with particular clients, including clients in certain funds and pooled investment vehicles. We may provide investment advisory or research services to clients for negotiated fixed fees based on the value of the services rendered and may, from time to time, receive a performance based fee, except in those jurisdictions that do not allow fees based on performance. Holdings in a client's account may include real estate investment trusts (“REITS”), investment companies (including exchange traded funds or “ETFs”) and other pooled vehicles for which a separate management fee is charged, including investment companies and other pooled vehicles advised by us or a related person.

Fees are generally billed quarterly in arrears based on current or quarter-average market values. Certain accounts, however, are billed quarterly in advance. The timing of fee payments and method of calculation for particular clients may vary in accordance with client preferences. Typically, our services are terminable by either party upon written notification in accordance with the applicable contractual notice provision. Upon termination the fees described above (including performance fees, if any) generally will be prorated.

The fees described herein are only the advisory fees charged by us and do not reflect custodial or other fees that may be applicable to your account.

The fees described herein do not include information for advisory services we provide through Wrap Fee Programs. The terms of each client's separately managed account in a Wrap Fee Program is typically governed by the client's agreement with the Sponsor and disclosure document for each Wrap Fee Program. Wrap Fee Program clients are urged to refer to the appropriate disclosure document and client agreement for more information about the Wrap Fee Program and advisory services. The fees for a Wrap Fee Program may result in higher costs than a client would otherwise realize by paying standard fees and negotiating separate arrangements for trade execution, custodial and consulting services.

Item 12, "Brokerage Practices", further describes the factors that we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation.

Asset Allocation

We provide asset allocation advice for fees that are negotiated and vary depending on your particular circumstances. The fee we charge for asset allocation advice is in addition to the fees we and our affiliates receive as adviser and/or administrator to certain open and closed end mutual funds (the "Morgan Stanley Funds") and other pooled vehicles in which we may invest your portfolio's assets.

We generally do not charge advisory fees on separately managed client assets that are invested in the Morgan Stanley Funds in addition to the advisory fees that we charge to such Morgan Stanley Funds. Generally, fees billed to a separately managed client under the client's investment management contract will be reduced by the amount of any investment advisory fees (but not other fund level fees) that we receive from the Morgan Stanley Funds as a result of the client's investment in the Morgan Stanley Funds. Alternatively, in certain instances and/or in connection with investments by you in certain portfolios, assets invested in such portfolios may be excluded from your total assets for purposes of calculating your separate account fee. In those instances, you will pay the advisory fee payable by the applicable Morgan Stanley Fund portfolio, which may be higher than the fee generally payable under your investment management contract. We may include the value of closed-end funds we manage, for purposes of determining the investment management fee payable to us.

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 we charge 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 affiliates 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 us or an affiliate, we are generally entitled to carried interest with respect to each investor equal to 10% of such investor'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.

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) the aggregate capital commitments to a fund, (ii) the aggregate capital commitments made by the applicable fund to such fund's underlying investments (based on the acquisition costs of such underlying investments) or (iii) 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 affiliates are also entitled to receive performance based fees which vary.

We or our affiliates are generally entitled to carried interest with respect to each investor generally ranging from 5% - 20% of such investor'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 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.

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

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 .90% of the net asset value of the applicable account. In some cases, we or our affiliates 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

Separately Managed 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 investors in hedge fund of funds or private markets fund of funds strategies may expect to incur include, but are not limited to, the operating expenses and performance-based incentive fees or allocation 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 an investor's 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, when making investment transactions on behalf of clients that require the use of a broker-dealer, we select broker-dealers for the execution of transactions in accordance with our duty to seek "best execution" (i.e., the most favorable overall price and execution) as detailed in "Best Execution and Brokerage Selection Factors" section of Item 12 "Brokerage Practices". 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. 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 hedge fund of fund's or private markets fund of 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 that 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.

For additional information on allocation issues and our practices, please refer to Item 12 “Brokerage Practices”.

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) in order 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 help ensure that such conflicts are reviewed and managed appropriately. The Side-by-Side Subcommittee meets on a regular basis and is comprised of representatives from business areas and control functions. The responsibilities and duties of the Side-by-Side Subcommittee include, among other things, establishing and reviewing appropriate reporting to monitor and review investment and related activities in side-by-side management situations for the relevant business areas.

ITEM 7 TYPES OF CLIENTS

We provide advice to corporate pension and profit-sharing plans, corporate entities, individual investors (including high net worth individuals), insurance companies, state, local and foreign government entities and pension plans (including foreign pension funds), funds of one, supra-national organizations, endowments, sovereign wealth funds, educational institutions, foundations, charitable institutions, registered mutual funds, unregistered funds, closed-end funds and foreign regulated funds such as SICAVs and SIFs.

ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

We engage in the following Significant Equity Investment Strategies:

Global Emerging Markets

The **Breakout Nations Strategy** seeks to maximize total return, through investment in emerging and frontier market countries. The Breakout Nations Strategy is a high conviction strategy focused on a

universe of 40 emerging and frontier market countries. The strategy seeks to capitalize on the disparities in future growth identified by our proprietary approach, “Rules of the Road”.

The **Emerging Markets Leaders Strategy** seeks to invest in companies operating in emerging and frontier markets which feature superior business fundamentals including quality management, the potential to become leading or global brands, the ability to deliver sustainable or improving Returns on Equity (ROEs) and increasing returns on invested capital.

The **Global Emerging Markets Equity Strategy** is a core strategy with a growth bias that seeks attractive long-term, risk-adjusted returns by investing in emerging market equities. To achieve its objective, the strategy combines top-down country allocation with bottom-up stock selection and disciplined risk management. The strategy exists on a global basis as well as within regional and country specific emerging markets.

The **Emerging Markets Small Cap Portfolio** focuses on identifying high-quality small cap investments across emerging and frontier markets, and seeks the most compelling opportunities by building an actively managed, focused portfolio of companies potentially positioned to benefit from these growth themes. To help achieve that objective, the team combines top-down country allocation with bottom-up stock selection.

Growth

The **Advantage Strategy** seeks long term capital appreciation by investing in high-quality established franchise companies characterized by sustainable competitive advantages and strong current period free-cash-flow yield. To achieve this objective, the investment team focuses on long-term growth, rather than short-term events, with stock selection informed by rigorous fundamental analysis. This strategy exists on a U.S., international and global basis.

The **Growth Strategy** seeks long term capital appreciation. To achieve its objective, the investment team seeks high-quality, established and emerging companies with sustainable competitive advantages, and focuses on long-term growth rather than short-term events, with stock selection informed by rigorous fundamental analysis. The strategy exists across market capitalizations.

The **Insight Strategy** seeks long term capital appreciation by investing in high-quality established and cyclical companies with strong free-cash-flow yields and favorable returns on invested capital trends. The investment team seeks to invest in companies with strong name recognition, sustainable competitive advantages and ample growth prospects at an attractive discount to future cash flow generation capacity or asset value. This strategy exists on a US and global basis.

The **Opportunity Strategy** seeks long-term capital appreciation by investing in high-quality established and emerging companies that the investment team believes are undervalued at the time of purchase. To achieve its objective, the investment team seeks companies with sustainable competitive advantages and long-term growth that creates value, rather than focusing on short-term events, with stock selection informed by rigorous fundamental analysis. This strategy exists on a Global, International and Asia ex-Japan basis.

European Equity

The **European Equity Alpha Strategy** seeks to generate long-term capital appreciation by investing primarily in a concentrated portfolio of equity securities of high quality companies that are listed on the European stock exchange with sustainable competitive advantages, strong cash-flow generation, and high

returns on investment. To achieve this objective, the investment team employs disciplined, fundamental analysis to identify those companies that trade at a discount to their long-term intrinsic value.

The **Eurozone Equity Alpha Strategy** seeks to generate long-term capital appreciation by investing primarily in a concentrated portfolio of equity securities of high quality companies domiciled or exercising the predominant part of their economic activity in the Eurozone with sustainable competitive advantages, strong cash-flow generation, and high returns on investment. To achieve this objective, the investment team employs disciplined, fundamental analysis to identify those companies that trade at a discount to their long-term intrinsic value.

The **European Champions Strategy** seeks to generate long-term capital appreciation by investing in European companies that possess a prominent and sustainable position in their field, potentially enabling superior profitability and investment returns. To achieve this objective, the investment team combines quantitative filters with rigorous qualitative analysis to create a concentrated, high conviction portfolio.

International Equity

The **Global Franchise Strategy** is a concentrated value-oriented equity strategy that offers a differentiated approach to investing in global stocks. The strategy seeks to generate attractive returns by investing in high-quality franchise businesses, characterized by dominant intangible assets, high returns on operating capital employed and strong free cash flow generation. To achieve this objective, the strategy focuses on investing in high-quality companies that can consistently compound shareholder wealth over the long term, while offering relative downside protection.

The **Global Quality Strategy** is a concentrated, global equity strategy that offers a disciplined approach to investing in a portfolio of what we believe to be world class companies. The strategy seeks to generate attractive, long-term absolute and relative returns with good potential upside while retaining a clear focus on downside protection. The strategy uses fundamental analysis and bottom-up stock selection to identify companies characterized by resilient, high cross-cycle, unlevered returns on capital, and strong free cash flow generation. The strategy aims to buy these stocks at attractive valuations relative to their cash flow based fundamental analysis. This strategy is also available excluding issuers which invest in, or derive income from, tobacco products.

The **International Equity Strategy** invests primarily in equity securities domiciled outside of the U.S. The strategy invests in a diversified portfolio of two types of stocks: attractively priced High Quality Compounders, companies characterized by high returns on capital and strong free cash flow generation and Value Opportunities, companies with reasonable and/or improving fundamentals; the mix of the two types of stocks varies over time based on valuation and company prospects. The Strategy seeks to provide superior returns over the long term by providing attractive absolute returns in rising markets while offering a measure of downside protection in challenging markets. This strategy is also available with limited US exposure.

Applied Equity Advisors

The **Applied Equity Advisors** team uses a combination of quantitative models and fundamental research to seek investment opportunities in companies with attractive valuations, above-average appreciation potential and competitive dividend yields. The team believes that individual stock and overall portfolio performance are determined by both top-down macro exposures and bottom-up company specific results. They attempt to capture both drivers by using quantitative factor modeling and rigorous fundamental analysis.

The Applied Equity Advisors Strategies are equity strategies that seek to capture outperformance relative to benchmark. To achieve their objective, each strategy combines “top-down” and “bottom-up” analysis. The strategies exist on a U.S. Core, Global Core and Global Concentrated basis.

The Applied Equity Advisors team also manages Enhanced Index strategies that rely fully on the team’s quantitative capabilities. The strategies seek to achieve performance of the benchmark net of fees. The strategies hold a representative basket of securities, closely aligned from a sector, style, and capitalization perspective with the underlying benchmark. The strategy exists on an Enhanced Index Russell 1000 basis.

Fundamental Equity Advisors

The **Fundamental Equity Advisors** team seeks to identify undervalued equities using a rigorous fundamental approach to stock selection. They look for companies with strong free cash flow, attractive valuations, profit margin expansion opportunities, strong management and changing internal dynamics. The Fundamental Equity Advisors Strategies are equity strategies that seek to identify undervalued equities and capture outperformance relative to benchmark. To achieve this objective, each strategy utilizes a “bottom-up” fundamental approach to stock picking. The strategies exist on a U.S. basis.

Global Listed Real Assets

The **Global Real Estate Securities Strategy** seeks attractive long-term, risk-adjusted returns by investing in publicly traded real estate securities that offer exposure to the direct real estate markets at the best value relative to underlying asset values and growth prospects, primarily in developed countries worldwide. The investment team utilizes proprietary research to drive a long-term, value-oriented, bottom-up driven investment process and also incorporates top-down analyses. This strategy is available on a global, international and regional basis (e.g., U.S., North America, Europe, Asia).

The **Global Real Estate Best Ideas Strategy** and **Global Real Estate Concentrated Strategy** seek to invest in publicly-traded real estate securities that offer the highest total expected returns on a risk-adjusted basis worldwide. To help achieve its objective, the investment team implements a rigorous, bottom-up, value-oriented investment approach to select the team’s highest conviction ideas. Depending upon client requirements, those strategies can be implemented in a highly customized manner.

The **Global Infrastructure Securities Strategy** seeks attractive long-term, risk-adjusted returns by investing in publicly traded infrastructure securities that offer exposure to the direct infrastructure markets at the best value relative to underlying asset values and growth prospects worldwide. The investment team utilizes proprietary research to drive a long-term, value-oriented, bottom-up driven investment process and also incorporates top-down analyses.

The **Listed Real Assets Strategy** seeks attractive long-term, risk-adjusted returns by investing in publicly traded real estate and infrastructure securities that offer exposure to the direct real estate and infrastructure markets at the best value relative to underlying asset values and growth prospects. The investment team utilizes proprietary research to drive a long-term, value-oriented, bottom-up driven investment process and also incorporates top-down analyses. This strategy exists on a global and regional basis.

Active International Allocation

The **Active International Allocation Strategy** seeks long-term capital appreciation by investing primarily, in accordance with country and sector weightings, in equity securities of non-U.S. issuers which, in the aggregate, replicate broad market indices. To achieve its objective, the strategy utilizes a top-down value

approach that emphasizes country and sector selection and relative weighting. This strategy exists on a global and international basis.

Global Multi-Asset

The **Absolute Return Strategy** seeks to achieve total return by investing in a blend of equity and fixed income securities of U.S. and non-U.S. issuers. It is a global macro strategy that seeks to identify and exploit inefficiencies between markets, regions and sectors to deliver returns in excess of a customized financial benchmark. In seeking to achieve this investment objective, the strategy utilizes a global tactical approach to achieving total return, and to control risk and volatility.

The **Global Tactical Asset Allocation Strategy** seeks to achieve total return by investing in a blend of equity and fixed income securities of U.S. and non-U.S. issuers. It is a global macro strategy that seeks to identify and exploit inefficiencies between markets, regions, and sectors to deliver returns in excess of a customized financial benchmark. In seeking to achieve this investment objective, the strategy utilizes a global tactical approach to achieving total return, and to control risk and volatility.

We engage in the following Significant Fixed Income Investment Strategies:

Global Fixed Income (includes U.S. and non-U.S.)

The **Global Fixed Income Strategies** combine a top-down assessment of the global bond universe with rigorous bottom-up fundamental and/or quantitative analysis.

The process begins with a top-down value assessment of the bond universe, including a consideration of macroeconomic conditions, business cycles, and relative valuations. The team seeks first to identify areas where implied market forecasts are out of line relative to historic trends and second, to identify what the catalyst will be for the market to adjust, and for the sector to re-value. From these assessments, the Asset Allocation team sets the broad overall investment direction. Portfolio managers subsequently work with our research analysts to implement these ideas across fixed income portfolios, in accordance with each portfolio's objectives and guidelines.

Macro Analysis: The team seeks to determine which themes are driving asset prices across rates, countries, and currencies and to evaluate the investment opportunity set based on a thematic investment thesis. The top-down process uses a combination of fundamental and quantitative analysis to identify and evaluate these investment opportunities.

Asset Allocation: The primary role of the Asset Allocation team is to identify the key drivers of fixed income markets and to determine the relative attractiveness of each sector of the fixed income market, together with interest rate and currency positions. The team seeks first to identify areas where implied market forecasts are out of line relative to historic trends and second, to identify the catalyst for the market to adjust. Internal debate is a key feature of the team's investment philosophy, ensuring investment ideas are tested thoroughly. The team debates relative value across sectors and recommends broad strategy. The team believe this creates a balanced and complete approach, ensuring that all fixed income asset classes are evaluated. Crucially, the team examines correlations and risks across fixed income markets. Ultimately, the team aims to identify the investments with the best risk/reward profile to implement our investment themes.

Research: Research is conducted by dedicated teams specializing in a particular niche of the fixed income market. The research teams use in-depth fundamental analysis, complemented by quantitative tools, to generate bottom-up investment ideas and are responsible for security selection.

The teams' commitment to research is exemplified by the integration of their research and portfolio management teams, which ensures that their research findings are incorporated in their portfolio management activities. Each of the teams' fixed income investment professionals is a member of one of their research teams covering Credits, Mortgages, Emerging Market Debt, and Macro. The portfolio managers and research analysts interact daily through informal meetings and regularly scheduled formal meetings throughout the week. This provides a robust forum for debate, review and implementation of investment ideas. Research analysts provide support to the portfolio managers, as well as critical input to the investment decision-making process.

Portfolio Construction: Portfolio managers are responsible for implementing the investment strategies. They work to construct each portfolio in a way that conforms to individual client/strategy guidelines and objectives, while staying true to the broad strategy targets that are set by the Asset Allocation team. The portfolio managers achieve these targets by working with the research analysts to fill the sector buckets with bottom-up security selection ideas. This ensures that portfolios are both consistently benefiting from the team's best investment ideas and adhering to client guidelines and risk/return objectives.

Global

The **Global Aggregate Strategy** seeks attractive total returns from income and price appreciation by investing in a globally diversified portfolio of multicurrency debt issued by government and non-government issuers. To help achieve this objective, the strategy combines a top-down macroeconomic assessment, with rigorous bottom-up fundamental analysis and active currency management (where appropriate).

The **Global Convertible Strategy** seeks attractive total returns by investing in convertible bonds issued globally. The strategy is designed to take advantage of the attractive risk/return characteristics of convertible bonds by allowing meaningful participation in equity market growth while attempting to provide downside protection through fixed income.

The **Global Credit Strategy** seeks attractive total returns from income and price appreciation by investing in a globally diversified portfolio of multi-currency debt issued by corporations and non-government issuers. To help achieve this objective, the strategy combines a top-down macroeconomic assessment with rigorous bottom-up fundamental analysis.

The **Global Fixed Income Opportunities Strategy** seeks attractive total return in any market cycle. The strategy maximizes the benefits of its global approach across all the sub-asset classes in Fixed Income to ensure "best ideas" are included. It focuses on absolute and risk-adjusted return over tracking error and benchmark, investing across currency, credit and interest rate markets. The strategy includes exposures to asset classes such as emerging markets, high yield, ABS/MBS, and convertibles.

The **Global High Yield Strategy** is an active, value-oriented fixed income strategy that seeks to maximize total returns from income and price appreciation by investing in a globally diversified portfolio of debt issued by corporations and non-government issuers. The strategy utilizes a bottom-up credit intensive approach that looks for relative value opportunities, integrated with top-down macro analysis. The strategy also exists on a regional basis (e.g., Asian High Yield).

The **Global Sovereign Strategy** seeks attractive total returns from income and price appreciation by investing in a globally diversified portfolio of multicurrency debt issued by government issuers. To help achieve this objective, the strategy combines a top-down macroeconomic assessment, with rigorous bottom-up fundamental analysis and active currency management (where appropriate).

The **Global Buy and Hold Strategy** is an unconstrained fixed-income strategy that seeks income generation and price appreciation by investing in the most attractive sectors and a globally diversified portfolio of debt issued from various sectors of the fixed income universe. To help achieve this objective, the strategy combines a top-down proprietary quantitative model (bespoke for B&H portfolios) which screens through a large universe of eligible investments along with rigorous bottom-up fundamental analysis to build a portfolio to meet the criteria of the product.

The **Global Securitized Strategy** seeks to provide an attractive rate of total return, measured in U.S. dollars, through investments primarily in U.S. and global residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities.

European

The **European Aggregate Core/Core Plus Strategy** seeks attractive total returns from income and price appreciation by investing in a diversified portfolio of Government Corporation and non-government debt denominated in euro. To achieve this objective, the strategy combines a top-down assessment of the macroeconomic conditions to evaluate the government bond universe alongside rigorous bottom-up fundamental analysis in order to assess the non-government fixed income and corporate bonds.

The **European Credit Strategy** seeks attractive total returns from income and price appreciation by investing in a globally diversified portfolio of primarily euro-denominated debt issued by corporations and non-government related issuers. To achieve this objective, the fund combines a top-down macroeconomic assessment, to determine optimal beta positioning for the portfolio, with rigorous bottom-up fundamental analysis.

The **European High Yield Bond Strategy** seeks attractive returns through investing in a globally diversified portfolio of primarily high yielding fixed income securities. The team invests primarily in euro-denominated debt issued by corporations that offer a yield above that generally available on investment-grade debt securities. To achieve its objective, the strategy combines a top-down macroeconomic assessment, to determine optimal beta positioning for the portfolio, with rigorous bottom-up fundamental analysis.

The **European Strategic Bond Strategy** seeks attractive total returns from income and price appreciation by investing in a globally diversified portfolio of government, corporation, and non-government debt denominated in euro and non-euro currencies. To achieve this objective, the strategy combines a top-down assessment of macroeconomic conditions and the corporate bond universe with rigorous bottom-up fundamental analysis. The strategy has a broad investment universe and can purchase securities rated BB- and above.

The **European Absolute Return Strategy** seeks attractive total returns from income and price appreciation by investing in a globally diversified portfolio of government, corporation, and non-government debt denominated in euro and non-euro currencies. To achieve this objective, the strategy combines a top-down assessment of macroeconomic conditions and the corporate bond universe with rigorous bottom-up fundamental analysis.

Sterling

The **Sterling Credit Strategy** seeks attractive total returns from income and price appreciation by investing in a globally diversified portfolio of primarily sterling denominated debt issued by corporations and non-government related issuers. To achieve this objective, the fund combines a top-down macroeconomic assessment, to determine optimal beta positioning for the portfolio, with rigorous bottom-up fundamental analysis.

Strategic Income

The **Strategic Income Strategy** invests in fixed income securities across a spectrum of asset classes including, investment-grade, emerging markets, high yield, ABS/MBS, and convertibles. The Portfolio's unconstrained approach provides the flexibility to allocate across these fixed income sectors and seek the best ideas through bottom-up security selection globally. It focuses on absolute and risk-adjusted return over tracking error and benchmark, investing across currency, credit and interest rate markets. The aim is also to construct a portfolio with less sensitivity to interest rate movements and the potential to capture positive returns across varying interest rate environments.

U.S.

The **Core/Core Plus Strategy** seeks above-average total return over a market cycle of 3-5 years, using a disciplined, research-driven approach to identify attractive value measures regarding sector/security selection, interest rate risk, and yield curve positioning. The portfolio team strives to balance these risks to shape the portfolio by monitoring interest rates, inflation, the shape of the yield curve, credit risk, prepayment risk, country risk and currency valuations.

The **Investment Grade Corporate Strategy** is a value-oriented fixed income strategy that seeks attractive total returns from income and price appreciation by investing in a diversified portfolio of debt issued by corporations and other non-government issuers. To help achieve this objective, the strategy combines a top-down macroeconomic assessment, to determine optimal beta positioning for the portfolio, with rigorous bottom-up fundamental analysis.

The **Short & Limited Duration Strategy** seeks to offer clients an attractive risk-adjusted return with low volatility. Many mandates are customized to client's specific objectives.

The **U.S. High Yield Strategy** is an active, value-oriented fixed income strategy that seeks to maximize total returns from income and price appreciation by investing in a diversified portfolio of U.S. high yield debt issued by corporations and non-government issuers. To help achieve this objective, the strategy uses a bottom-up, credit-intensive approach that looks for relative value opportunities.

The **U.S. Long Duration Strategy** seeks above-average total return over a market cycle of 3-5 years, using a disciplined, research-driven approach to identify attractive value measures regarding sector/security selection, interest rate risk, and yield curve positioning. Some mandates use an "LDI" (Liability Driven Investment) approach, where the close tracking of a liability proxy is a key objective.

The **U.S. Mortgage Securities Strategy** seeks to provide an attractive rate of return through investments in high credit-quality mortgage related securities. The strategy primarily invests in residential mortgage-backed securities issued by government agencies, but also invests in highly-rated asset-backed securities,

commercial mortgage-backed securities and residential mortgage-backed securities issued by private institutions.

Emerging Markets

- **Macro analysis:** The team begins with a top-down macro analysis of the global environment, and examines the impact of various geopolitical, economic and business trends (including global economic growth, business and inflation cycles, and commodities prices) on a universe of 70 or more emerging market countries. The output of the team's macro analysis is an overall risk assessment and risk target for the overall portfolio.
- **Country analysis:** The team's objective is to identify countries that exhibit signs of positive rates of fundamental change using frameworks that meld economic, political and social assessments. In analyzing economic factors, it distinguishes between policies (such as fiscal, monetary and exchange rate regimes), and objectives (for example GDP growth, inflation, external accounts and debt serviceability). The team focuses on the governments' ability to formulate and implement policies and on the economy's responsiveness to them. It also emphasizes socio-political factors including political risks, leadership, election calendars, regime changes and social stability.
- **Security selection:** The team screens a universe of sovereign, quasi-sovereign and corporate fixed income securities in each country for the most attractive opportunities. This is based on risk/return profiles for EM Domestic Debt and EM External Debt Strategies. The EM Corporate Debt Strategy selects securities based on yield, targeted duration, security, covenants and other considerations.

The **Emerging Markets Domestic (Local Currency) Debt Strategy** is a value-oriented fixed income strategy that seeks high total return from income and price appreciation by investing in a range of sovereign, quasi-sovereign and corporate debt securities in emerging markets. Investments are mostly denominated in emerging market and/or non-U.S. currencies. To achieve its objective, the strategy combines top-down country allocation with bottom-up security selection. All investment recommendations undergo peer review, and final decisions with respect to portfolio construction and market-risk exposure are made on a team basis.

The **Emerging Markets External Debt Strategy** is a value-oriented fixed income strategy that seeks high total return from income and price appreciation by investing in a range of sovereign, quasi-sovereign and corporate debt securities in emerging markets. Investments are mostly denominated in U.S. currency, and, to a lesser extent, in non-U.S. and/or local currencies. To achieve its objective, the strategy combines top-down country allocation with bottom-up security selection. All investment recommendations undergo peer review, and final decisions with respect to portfolio construction and market-risk exposure are made on a team basis.

The **Emerging Markets Corporate Debt Strategy** is a value-oriented fixed income strategy that seeks to maximize total return from income and price appreciation by primarily investing across the credit spectrum in the debt securities of emerging market corporate issuers. Investments are mostly denominated in U.S. currency, and include non-U.S. and/or local currencies. To achieve its objective, the team follows a disciplined investment process that combines top-down country allocation with bottom-up credit analysis to identify undervalued emerging market corporate debt securities. All investment recommendations undergo

peer review, and final decisions with respect to portfolio construction and market-risk exposure are made on a team basis.

The **Emerging Markets Fixed Income Opportunities Strategy** seeks high total return from income and price appreciation by investing in a range of sovereign, quasi-sovereign and corporate debt securities in emerging markets, which may include U.S. dollar-denominated, local currency, and corporate debt securities. We believe that emerging markets experiencing positive fundamental change may present attractive investment opportunities for investors. To help achieve its objective, the strategy combine top-down country allocation with bottom-up security selection.

Money Market Separate Account Strategy

The **Money Market Separate Account Strategy** seeks preservation of capital, liquidity, and current income as its objective. The strategy may invest in liquid, high quality U.S. dollar-denominated money market eligible instruments of U.S. and foreign corporations (both financial and non-financial) and obligations issued or guaranteed by the U.S. Government and its agencies and instrumentalities, foreign securities, asset-backed securities, repurchase agreements and local authority obligations. The investment team utilizes proprietary research to drive a value-oriented, fundamental investment process that combines bottom-up and top-down analysis.

Alternative Investment Strategy:

The core of our investment approach is a research intensive strategy and manager selection process intended to exploit market inefficiencies and other situations outside the mainstream of conventional investing while minimizing risk. Investments managed on a discretionary basis are selected opportunistically and managed dynamically from the complete range of liquid and private market strategies appropriate for each account. The offering documents and/or governing documents and, in applicable cases, the client's investment management agreement provide a fuller description of the types of Underlying Investment Funds in which we cause an account to invest. Our personnel use a wide range of resources to identify attractive Underlying Investment Funds 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 (i) investing in funds managed by Underlying Investment Managers who employ a variety of non-traditional liquid market investment strategies; (ii) investing in certain investment funds managed in a traditional style; and (iii) making 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. Underlying 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 Underlying Investment Funds or to adjust market or risk exposure by, among other things, entering into Risk Premia Investments (as defined

below). 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 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.

Risk Premia Strategy. Certain Accounts may, as a part of their investment strategy, invest in Investment Funds managed by an Affiliated Adviser (as defined below) that invest in a broad set of risk premia investments ("Risk Premia Investments"), currently expected under normal market conditions to constitute a diverse set of different strategies or factors.

A risk budgeting layer is implemented to adjust the Risk Premia strategy's portfolio based on the Affiliated Adviser's fundamental understanding of the premia. The risk budgeting layer seeks to provide controls not captured by risk parity (which is a measure of the risk contribution of each factor). Single-stock equity strategies include selections based on factors such as value, momentum, quality, timing of dividends or low beta. Macro strategies use indices that are constructed for such factors as momentum, trend, value, carry or curve. Volatility strategies include shorting indices that measure volatility in equity, interest rates, foreign exchange, or commodities, in effect seeking to earn a profit when volatility of the relevant index increases. Other strategies may seek to rely on the phenomenon of equity mean reversion.

The Affiliated Adviser intends to implement the Risk Premia strategy primarily through total return swaps, and will gain such exposure through multiple counterparties. The Adviser expects to use total return swaps based on custom risk premia indices, each with a published methodology containing the index-specific rulebook regarding construction.

The Risk Premia strategy may also buy and sell futures, listed options and common stocks. The Affiliated Adviser will generally implement Risk Premia Investments directly, but may also invest in Investment Funds who invest in Risk Premia strategies.

Risk Premia Investments seek to generate returns through particular investments in the broader securities markets that are designed to give exposure to independent risk factors, such as price momentum, size risk, commodity carry risk, and currency carry risk. These strategies call for investments in securities possessing one or more attributes that have historically been associated with, or are otherwise believed to offer, attractive investor returns as a result of their exposure to a particular risk factor.

The Affiliated Adviser evaluates the actual and potential performance of Risk Premia Investments on a risk-adjusted basis. The Affiliated Adviser will generally seek to allocate capital to Risk Premia Investments that offer attractive returns relative to the level of volatility in their investment results. In making investment decisions, the Affiliated Adviser will consider both the volatility of investment results associated with particular Risk Premia Investments and the effect of individual Risk Premia Investments on the risk-return

profile of Risk Premia Investments as a whole. Risk Premia Investments may strategically allocate capital to relatively high-risk strategies if those strategies have the potential to generate correspondingly high returns or otherwise have a positive impact on the risk-return profile of Risk Premia Investments as a whole.

Risk Premia Investments may pursue a wide range of investment approaches, including, without limitation value, carry, curve, trend/momentum, mean reversion, volatility, congestion opportunistic, hedge and other similar strategies, as well as equity specific low-beta, size, value, quality and momentum strategies.

The Risk Premia strategy may also invest short-term cash balances in temporary cash investments, including shares of money market funds. In such case, the investment adviser to such money market fund will receive asset-based fees in respect of the Risk Premia strategy's investment.

Portfolio Solutions

The 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 multi-asset investment portfolios and advises its clients on all aspects of portfolio construction, including: (i) analyzing manager performance (both hedge funds and traditional managers); (ii) creating strategic portfolios that include equities, fixed income, alternative investments; and (iii) developing commitment strategies for private equity and real estate investments and portfolio transition plans.

Private Market Fund of Funds

For our Private Market Funds of Funds strategies, we implement our investment advice through three primary investment approaches: (i) primary commitments to Underlying Investment Funds; (ii) co-investments, primarily alongside our existing primary Underlying Investment Managers; and (iii) secondary market purchases of existing private markets Underlying Investment Funds and other private markets assets. Underlying Investment Managers may employ a variety of non-traditional private markets investment strategies, including buyouts, growth capital, venture capital, distressed companies, special situations, mezzanine, and other real asset partnership interests purchased and sold on the secondary markets, emerging markets and other categories. Our Private Market Fund of Funds strategies may, in some cases, as part of their overall investment strategy, make investments other than in Underlying 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 equity businesses or funds ("Other Investments").

Risk Considerations

All investing and trading activities risk the loss of capital. Although we will attempt to moderate these risks, no assurance can be given that the investment activities of an account or fund we advise will achieve the investment objectives of such account or fund or avoid losses. Direct and indirect investing in securities involves risk of loss that you should be prepared to bear.

Set forth below are some of the material risk factors that are often associated with the types of investment strategies and techniques and types of securities relevant to many of our clients. The information included in this Brochure does not include every potential risk associated with an investment strategy, technique or type of security applicable to a particular client account. Clients are urged to ask questions regarding risks

applicable to a particular strategy or investment product, read all product-specific risk disclosures and consult with their own legal, tax and financial advisors to determine whether a particular investment strategy or type of security is suitable for their account in light of their specific circumstances, investment objectives and financial situation.

Risk Considerations Associated with Investing- In General. The following is a non-exhaustive description of risks associated with investments generally and/or may apply to one or more type of security or investment technique.

- **General Economic and Market Risks.** 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. Economies and financial markets throughout the world are becoming increasingly interconnected, which increases the likelihood that events or conditions in one country or region will adversely impact markets or issuers in other countries or regions.
- **Volatility Risks.** The prices of commodities contracts and all derivatives, including futures and options, can be highly volatile. Accounts and Underlying Investment Funds that trade in commodities contracts and derivatives are subject to the risk that trading activity in such securities 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 account or Underlying Investment Fund to properly value any of its assets represented by such securities.
- **Inadequate Return Risk.** No assurance can be given that the returns will be commensurate with the risk of your investment. You should not commit money to an 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.
- **Inside Information Risk.** 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.
- **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.
- **Cyber Security-Related Risks.** 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 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.

- **Legal and Regulatory Risks.**

- The regulation of the U.S. and non-U.S. securities and futures markets has undergone substantial change over the past decade and such change may continue. In particular, in light of 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. In addition, regulatory change in the past few years has significantly altered the regulation of commodity interests and comprehensively regulated the OTC derivatives markets for the first time in the United States. Further, 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 accounts and Underlying Investment Funds that utilize short selling. The effect of such regulatory change on the accounts and/or the Underlying Investment Funds, while impossible to predict, could be substantial and adverse.
- Section 619 of the Dodd-Frank Act (commonly referred to as the “Volcker Rule”), along with regulations issued by the Federal Reserve and other U.S. federal financial regulators (“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 that allow Morgan Stanley and its affiliates until July 21, 2022 at the latest to bring certain of their covered fund activities and investments into compliance with certain aspects of the Volcker Rule.

The Volcker Rule and the Implementing Regulations impose a number of restrictions on Morgan Stanley and its affiliates that could affect us, a covered fund offered by us, the general partner of those funds, and the limited partners of such funds. For example, to sponsor and invest in certain covered funds, Morgan Stanley must comply with the Implementing Regulations' “asset management” exemption to the Volcker Rule's prohibition on sponsoring and investing in covered funds. Under this exemption, the investments made by Morgan Stanley (aggregated with certain affiliate and employee investments in a covered fund) must not exceed 3% of the covered fund's outstanding ownership interests and Morgan Stanley's 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 prohibit Morgan Stanley and its affiliates from, entering into

certain 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, covered funds that it sponsors or advises. For example, Morgan Stanley may not provide loans, hedging transactions with extensions of credit or other credit support to covered funds it advises. While we 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 complying with 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 MSIM client’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.

Risk Considerations Associated with Particular Markets, Investment Techniques and Strategies. The following provides information on risks associated with certain types of investment techniques that may be used by accounts, pooled investment vehicles we advise and Underlying Investment Funds. Although risks have been grouped into categories based on type of technique, it is possible that risks within a particular category will apply to techniques in other categories. Additional information is available upon request. Investors in pooled investment vehicles and funds-of-funds should review the prospectuses, offering memoranda and constituent documents for additional information relating to the risk associated with investments in those pooled investment vehicles and funds-of-funds, respectively.

- **Foreign and Emerging Market Securities Risks.** Investments in foreign markets entail special risks such as currency, political, economic and market risks. There also may be greater market volatility, less reliable financial information, higher transaction and custody costs, decreased market liquidity and less government and exchange regulation associated with investments in foreign markets. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries. In addition, an investment by an account or Underlying Investment Fund may be denominated in foreign currencies and therefore, changes in the value of a country's currency compared to the U.S. dollar may affect the value of an account's investments.
- **Growth Investing Risks.** Growth investing attempts to identify companies that we believe will experience rapid earnings growth relative to value or other types of stocks, Growth stocks may trade at higher multiples of current earnings compared to value or other stocks, leading to inflated prices and thus potentially greater declines in value. The performance of growth strategies may be better or worse than the performance of equity strategies that focus on value stocks or that have a broader investment style.
- **Control Position Risks.** Certain accounts may directly, or indirectly through Underlying Investment Funds, 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 Underlying Investment Fund would likely suffer a loss, which may be complete, on its investment.
- **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, 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.
- **Short Sale Risks.** In a short sale transaction, an account sells a borrowed security in anticipation of a decline in the market value of that security. If we incorrectly predict that the price of a borrowed security will decline, an account may lose money. Losses from short sales differ from losses that

could be incurred from a purchase of a security, because losses from short sales may be unlimited, whereas losses from purchases can equal only the total amount invested.

- **Small Capitalization Company Investment Risks.** Investments in small cap companies entail greater risks than those associated with larger, more established companies. Often the securities issued by small cap companies may be less liquid, and such companies may have more limited markets, financial resources and product lines, and may lack the depth of management of larger companies.
- **Venture Capital Investment Risks.** Certain accounts may directly, or indirectly through Underlying Investment Funds, 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.
- **Special Situations Investment Risks.** Certain of the companies in whose securities an account or the Underlying Investment Funds may invest may be involved in (or are the target of) acquisition attempts or tender offers, 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. Additionally, these types of transactions may present 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. 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 by an account or an Underlying Investment Fund in any instrument is subject to no minimum credit standard and a significant portion of the obligations and preferred stock in which an account or Underlying Investment Fund may invest may be less than investment grade (commonly referred to as junk bonds), which may result in greater risks experienced by the account or Underlying Investment Fund, as applicable, than it would if investing in higher rated instruments.
- **Buy-Out Transaction Risks.** Certain accounts may invest directly or indirectly through Underlying Investment Funds, 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.
- **Model Risk.** Some strategies may include the use of various proprietary quantitative or investment models. There may be deficiencies in the design or operation of these models, including as a result of shortcomings or failures of processes, people or systems. Investments selected using models may perform differently than expected as a result of the factors used in the models, the weight placed on each factor, changes from the factors' historical trends, and technical issues in the construction and implementation of the models (including, for example, data problems and/or software issues). Moreover, the effectiveness of a model may diminish over time, including as a result of changes in the market and/or changes in the behavior of other market participants. A model's return mapping is based on historical data regarding particular asset classes. Certain

strategies can be dynamic and unpredictable, and a model used to estimate asset allocation may not yield an accurate estimate of the then current allocation. Operation of a model may result in negative performance, including returns that deviate materially from historical performance, both actual and pro-forma. Additionally, commonality of holdings across quantitative money managers may amplify losses. There is no guarantee that the use of these models will result in effective investment decisions for clients.

- **Lending Portfolio Securities.** An MSIM client may lend its securities to brokers, dealers and other financial institutions needing to borrow securities to complete certain transactions. The MSIM client continues to be entitled to payments in amounts equal to the interest, dividends or other distributions payable in respect of the loaned securities, which affords the MSIM client an opportunity to earn interest on the amount of the loan and on the loaned securities' collateral. In connection with any such transaction, the MSIM client will receive collateral consisting of cash, U.S. Government securities or irrevocable letters of credit that will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. The MSIM client might experience loss if the institution with which the MSIM client has engaged in a portfolio loan transaction breaches its agreement with the MSIM client.
- **Leverage.** A pooled investment vehicle may borrow money (and/or establish a line of credit) to provide for opportunistic asset allocation, facilitate payments on withdrawal and to remain fully invested in anticipation of future contributions. Additionally, a pooled investment vehicle may enter into various derivatives (such as options, futures and swaps) that have implicit or internal leverage in that the notional value of the derivative instrument is much larger than the cash needed to establish and maintain the derivative instrument.

Although leverage will increase the pooled investment vehicle's investment return if the investment purchased with borrowed funds earns a greater return than the interest expense the pooled investment vehicle pays for the use of those funds, the use of leverage will decrease the return on the pooled investment vehicle if the pooled investment vehicle fails to earn as much on its investment 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 pooled investment vehicle, especially in times of a "credit crunch" or during general market turmoil, such as that experienced recently.

- **Line of Credit.** Some pooled investment vehicles advised by MSIM may obtain a line of credit for bridge purposes to facilitate their investment activities. Should the pooled investment vehicle obtain such a line of credit, it may be required to pledge all of its assets as collateral and may also be required to pay commitment fees and non-use fees, even if such line of credit is never used. The risks associated with such a line of credit include interest expense risk, and, in the unlikely event that the value of the collateral pledged to secure such a line of credit were to decline significantly, the pooled investment vehicle could be forced to liquidate its assets to satisfy its repayment obligations under such line of credit.

Risk Considerations Associated with Equity Securities – In General. In general, prices of equity securities are more volatile than those of fixed income securities. The prices of equity securities will rise and fall in response to a number of different factors, including events that affect particular issuers as well as events that affect entire financial markets or industries. To the extent that an account invests in convertible securities, and the convertible security's investment value is greater than its conversion value, its price will be likely to increase when interest rates fall and decrease when interest rates rise. If the conversion value

exceeds the investment value, the price of the convertible security will tend to fluctuate directly with the price of the underlying equity security.

Risk Considerations Associated with Fixed Income Securities – In General. The prices of fixed income securities respond to economic developments, particularly interest rate changes, changes in the general level of spreads between U.S. Treasury and non-Treasury securities, and changes in the actual or perceived creditworthiness of the issuer of the fixed income security. Securities with longer durations are likely to be more sensitive to changes in interest rates, generally making them more volatile than securities with shorter durations. 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 raised rates.

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. Because the account is not limited as to the maturities of the fixed income securities in which it may invest, a rise in the general level of interest rates may cause the price of the account's portfolio securities to fall substantially. In addition, a portion of the account's securities may be rated below investment grade, commonly known as "junk bonds," and may have speculative risk characteristics.

Risk Considerations Associated with Security Types. The following provides information on risks associated with certain types of securities that may be invested in by accounts, pooled investment vehicles that we advise and Underlying Investment Funds. Although risks have been grouped into categories based on type of security, it is possible risks within a particular category will apply to securities in other categories. Additional information is available upon request. Investors in pooled investment vehicles and funds-of-funds should review the prospectuses, offering memoranda and constituent documents for additional information relating to the risk associated with investments in those pooled investment vehicles and funds-of-funds, respectively.

- **High Yield Securities/ Lower Rated Fixed Income Securities ("Junk Bonds") Risks.** An account's investments in high yield securities expose it to a substantial degree of credit risk. High yield securities may be issued by companies that are restructuring, are smaller and less creditworthy or are more highly indebted than other companies, and therefore they may have more difficulty making scheduled payments of principal and interest. High yield securities may experience reduced liquidity, and sudden and substantial decreases in price. The prices of these securities are likely to be more sensitive to adverse economic changes, resulting in increased volatility of market prices of these securities during periods of economic uncertainty, or adverse individual corporate developments, than higher rated securities. In addition, during an economic downturn or substantial period of rising interest rates, junk bond issuers and, in particular, highly leveraged issuers may experience financial stress.
- **Municipal Securities Risks.** Municipal obligations may be general obligations or revenue bonds and may include Build America Bonds. General obligation bonds are secured by the issuer's full faith and credit as well as its taxing power for payment of principal or interest. Revenue bonds are payable solely from the revenues derived from a specified revenue source, and therefore involve the risk that the revenues so derived will not be sufficient to meet interest and or principal payment obligations. Municipal securities involve the risk that an issuer may call securities for redemption, which could force the account to reinvest the proceeds at a lower rate of interest.

- **Derivatives Risks.** A derivative instrument often has risks similar to its underlying instrument and may have additional risks, including imperfect correlation between the value of the derivative and the underlying instrument, risks of default by the other party to certain transactions, magnification of losses incurred due to changes in the market value of the securities, instruments, currencies, indices or interest rates to which they relate and risks that the instruments may not be liquid and could be difficult to value. Certain derivative transactions may give rise to a form of leverage. Leverage magnifies the potential for gain and the risk of loss. Derivative instruments include, but are not limited to futures, swaps, options and structured investments. In addition, derivatives entered into by an account or Underlying 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 account or Underlying Investment Fund. If an account or an Underlying Investment Fund invests in derivatives at an inopportune time or incorrectly judges market conditions, the investments may lower the return of the account or Underlying Investment Fund or result in a loss. An account or an Underlying Investment Fund also could experience losses if derivatives are poorly correlated with their other investments, or if the account or Underlying Investment Fund is unable to liquidate the position because of an illiquid secondary market.
- **Asset-Backed Securities Risks (Generally).** Asset-backed securities are subject to the risk that consumer laws, legal factors or economic and market factors may result in the collateral backing the securities being insufficient to support payment on the securities. Some asset-backed securities also entail prepayment risk, which may vary depending on the type of asset.
- **Mortgage-Backed Securities.** Mortgage-backed securities entail prepayment risk, which generally increases during a period of falling interest rates. Certain mortgage-backed securities may be more volatile and less liquid than other traditional types of debt securities. In addition, an unexpectedly high rate of defaults on the mortgages held by a mortgage pool may adversely affect the value of a mortgage-backed security and could result in losses to the account. The risk of such defaults is generally higher in the case of mortgage pools that include subprime mortgages. Leverage may cause an account to be more volatile than if an account had not been leveraged.
- **Collateralized Mortgage Obligations (“CMOs”) Risks.** CMOs are comprised of various tranches, the expected cash flows on which have varying degrees of predictability as compared with the underlying mortgage assets. The less predictable the cash flow, the higher the yield and the greater the risk. In addition, if the collateral securing CMOs or any third party guarantees are insufficient to make payments, an account could sustain a loss.
- **U.S. Government Securities Risks.** With respect to U.S. government securities that are not backed by the full faith and credit of the U.S. Government, there is the risk that the U.S. Government will not provide financial support to such U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law.
- **Bank Obligation Risks.** The activities of U.S. banks, including Morgan Stanley, and most foreign banks, are subject to comprehensive regulations. The enactment of new legislation or regulations, as well as changes in interpretation and enforcement of current laws, may affect the manner of operations and profitability of domestic and foreign banks. In addition, banks, including Morgan Stanley, may be particularly susceptible to certain economic factors.
- **Bank Loan Risks.** Bank loans are subject to the risk of default. Default in the payment of interest or principal on a loan will result in a reduction of income to the account, a reduction in the value of the loan, and a potential decrease in the account’s balance. The risk of default will increase in the

event of an economic downturn or a substantial increase in interest rates. Bank loans are subject to the risk that the cash flow of the borrower and property securing the loan or debt, if any, may be insufficient to meet scheduled payments. As discussed above, however, because bank loans reside higher in the capital structure than high yield bonds, default losses have been historically lower in the bank loan market. Bank loans that are rated below investment grade share the same risks of other below investment grade securities

- **Repurchase Agreement Risks.** Repurchase agreements are subject to risks associated with the possibility of default by the seller at a time when the collateral has declined in value, or insolvency of the seller, which may affect an account's right to control the collateral.
- **ETF Risk.** Shares of ETFs have many of the same risks as direct investments in common stocks or bonds and their market value is expected to rise and fall as the value of the underlying securities or index rises and falls. As a shareholder in an ETF, a portfolio would bear its ratable share of that entity's expenses while continuing to pay its own investment management fees and other expenses. As a result, the account or the fund and its shareholders will, in effect, be absorbing duplicate levels of fees.
- **Money Market Instruments.** Money market investments may include commercial paper, corporate debt obligations, funding agreements, debt obligations (including certificates of deposit and promissory notes) of U.S. banks or foreign banks, or U.S. branches of foreign banks, or foreign branches of U.S. banks (such as Yankee obligations), certificates of deposit of savings banks and savings and loan organizations, variable rate master demand notes (including tax-exempt variable rate demand notes), other affiliated and nonaffiliated money market funds, asset-backed securities and repurchase agreements.

In addition, to more efficiently invest short-term cash balances held by a pooled investment vehicle or account, such vehicle or account may invest such balances on an overnight "sweep" basis in shares of one or more money market funds or other short-term vehicles. It is anticipated that the investment adviser to these money market funds or other short-term vehicles may be affiliated with MSIM (each an "MS Fund" and collectively the "MS Funds"). In such case, the affiliated investment adviser will receive asset-based fees in respect of the pooled investment vehicle's or account's investment (which will reduce the net return realized by such vehicle or account) in the MS Fund(s). The pooled investment vehicle or account which invests in MS Fund(s), as well as other shareholders, will also bear a proportionate share of the other expenses of such MS Fund(s). MSIM and/or any of its affiliates may receive fees directly from the MS Funds for the advisory and administrative services provided thereto as set forth in the prospectuses of the MS Funds. Where utilized, MSIM nonetheless believes these sweep investments will be in the best interests of the pooled investment vehicle or account and will be made on fair and reasonable terms.

- **Foreign Money Market Securities Risks.** Investing in money market securities of foreign issuers involves some additional risks, including higher cost of investing and the possibility of adverse political, economic or other developments affecting the issuers of these securities.
- **Privately Placed and Restricted Securities Risks.** An account's investments may also include privately placed securities, which are subject to resale restrictions. It is likely that such securities will not be listed on a stock exchange or traded in the OTC market. These securities will have the effect of increasing the level of an account's illiquidity to the extent the account may be unable to sell or transfer these securities due to restrictions on transfers or on the ability to find buyers interested in purchasing the securities. The illiquidity of the market, as well as the lack of publicly

available information regarding these securities, may also adversely affect the ability to arrive at a fair value for certain securities at certain times and could make it difficult for the account to sell certain securities (or to sell such securities at the prices at which they are currently held). Furthermore, companies whose securities are not publicly traded may not be subject to the disclosure and other investor protection requirements that might be applicable if their securities were publicly traded and/or listed on a stock exchange. An account may be obligated to pay all or part of the legal and/or other fees incurred in negotiating the purchase and or sale of a private placement security. When registration is required to sell a security, an account 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 account may be permitted to sell a security under an effective registration statement. If adverse market conditions developed during this period, an account might obtain a less favorable price than the price that prevailed when the account decided to sell.

- **REITs, Real Estate Operating Companies (“REOCs”) and Foreign Real Estate Company Risks.** Investing in REITs, REOCs and foreign real estate companies exposes investors to the risks of owning real estate directly, as well as to risks that relate specifically to the way in which REITs, REOCs and foreign real estate companies are organized and operated. In addition, investments in REITs and similar non-U.S. entities may involve duplication of management fees and certain other expenses. REITs are also subject to certain provisions under federal tax law and the failure of a company to qualify as a REIT could have adverse consequences for a portfolio. In addition, foreign real estate companies may be subject to the laws, rules and regulations governing those entities and their failure to comply with those laws, rules and regulations could negatively impact the performance of those entities.
- **Unrated Fixed Income Securities.** Unrated securities (which are not rated by a rating agency) may be less liquid than comparable, rated securities and involve the risk that purchasers may not accurately evaluate the security’s comparative credit rating. To the extent that a pooled investment vehicle or investor’s account invests in unrated securities, success in achieving the investment objective of such vehicle or account may depend more heavily on the investment manager’s analysis of the creditworthiness of the issuer than if the vehicle or account invested exclusively in rated securities.
- **Mezzanine Loans.** Certain loans may be in a junior or subordinate position to senior financing either because the loans are a second lien on the asset or are secured by a direct or indirect lien on the equity of the owner of the underlying asset (i.e., mezzanine debt). In certain circumstances, in order to protect its investment, an MSIM client may decide to repay all or a portion of the senior indebtedness relating to the particular loan or to cure defaults with respect to such senior indebtedness. In a bankruptcy of a borrower, those loans that are not secured by a lien on the underlying asset would have a priority no greater than other general creditors of the borrower. In addition to repayment risks, these subordinate positions may be “soft,” meaning subject to restrictions on enforcement rights prior to maturity or foreclosure of the senior position. These restrictions may adversely affect the MSIM client’s rights to realize upon or control the underlying assets.

Risk Considerations Associated with Underlying Investment Funds

- Certain of the Underlying Investment Funds are not registered as investment companies under the Investment Company Act of 1940, as amended (the “1940 Act”). Investors in the Underlying Investment Funds do not have the benefit of the protections afforded by the 1940 Act to investors in

registered investment companies. In addition, the investment managers of the Underlying Investment Funds may not be registered as investment advisers under the Advisers Act. Although we periodically receive information from each Underlying Investment Fund regarding its investment performance and investment strategy, we may have little or no means of independently verifying this information. An Underlying 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 Underlying Investment Funds' investment management, brokerage, custodial arrangements or operations and must rely on the experience and competency of the Investment Manager in these areas. The performance of our funds depends on our success in selecting Underlying Investment Funds for investment by the funds and the allocation and reallocation of assets among those Underlying Investment Funds.

- The Underlying 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 Underlying Investment Funds in which the Funds invest 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 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 Investment Manager to its own use.
- Each Investment Manager may receive any incentive-based fees to which it is entitled irrespective of the performance of the other Underlying Investment Funds and a fund generally. As a result, an Investment Manager with positive performance may receive compensation from the fund, in the form of the asset-based fees, incentive-based fees and other expenses payable by you as an investor in the relevant Investment Fund, even if the fund's overall returns are negative. The investment decisions of the Underlying 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 an account 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 performances. Because an account may make additional investments in or redemptions from Underlying Investment Funds only at certain times according to limitations set out in the governing documents of each such fund, an account 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.
- Underlying 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, an account may receive securities that are illiquid or difficult to value. In such a case, we would seek to cause the account to dispose of these securities in a manner that is in the best interest of the account. An account may not be able 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.

- By investing in the Underlying Investment Funds indirectly through the accounts, you bear asset-based fees and performance-based fees or allocations at the Underlying Investment Fund level, in addition to those payable to us in our capacity as investment adviser to each account. Similarly, you bear a proportionate share of the other operating expenses of (i) the Underlying Investment Funds in which the accounts are invested; and (ii) of the accounts themselves. If you meet the conditions imposed by the Underlying Investment Managers, you could invest directly with such Underlying Investment Managers.

Private Equity Real Assets Generally

Real Estate Market Conditions Risk. Some of the Underlying Investment Funds' real estate investment strategies may be based, in part, upon the premise that real estate businesses and assets will become available for purchase by such Underlying Investment Fund at prices that the investment manager of the Underlying Investment Fund considers more favorable. Further, the strategy of certain Underlying 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 either remain stable or, as applicable, recover or improve, since this will depend upon events and factors outside the control of the managers of the Underlying Investment Funds.

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 Underlying 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.

Effecting Operating Improvements Risk. In some cases, the success of an Underlying Investment Fund's real estate investment strategy will depend, in part, on the ability of such Underlying 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 Underlying Investment Fund will be able to successfully identify and implement such restructuring programs and improvements.

Commercial/Business Risk. It is anticipated that certain of our private equity real estate fund of funds will make investments in some Underlying Investment Funds, including MII, that have a limited operating history, a manager with limited private equity real estate fund management experience, or both. Such investments have inherently greater risk than more established private equity real estate funds. Accordingly, the growth of these Underlying 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 the accounts will be successful.

Ability of Underlying Funds to Finance, Consummate and Dispose of Investment Risk. The Underlying Investment Funds' ability to generate attractive investment returns for their investors may be adversely affected to the extent the Underlying Investment Funds are unable to obtain favorable financing terms for their real estate investments and may also affect certain of our accounts' and the Underlying 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 Underlying Investment Funds have invested, in addition to the resources of operating partners and investment projects in which the Underlying 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 Underlying 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 Underlying Investment Funds' and of the accounts' returns. Such marketplace events also may restrict the ability of the Underlying Investment Funds to sell or liquidate real estate investments at favorable times or for favorable prices.

ITEM 9 DISCIPLINARY INFORMATION

On December 22, 2015, we settled charges by the SEC relating to prearranged trades by a former portfolio manager/trader. The settlement covers the period from late 2011 through early 2012, during which time the SEC found that a former MSIM portfolio manager/trader engaged in six pairs of unlawful prearranged sales and buybacks of fixed income securities with a trader at an unaffiliated broker-dealer, which resulted in the undisclosed favorable treatment of certain MSIM advisory clients over others. The MSIM portfolio manager/trader was terminated by MSIM in May 2014.

Without admitting or denying the findings, we consented to the entry of an administrative cease and desist order finding violations of Section 17(a)(3) of the Securities Act of 1933, Sections 203(e)(6), 206(2) and 206(4) of the Investment Advisers Act of 1940 and Rule 206(4)-7 thereunder, and aiding and abetting violations of Section 17(a)(2) of the Investment Company Act of 1940. We were censured and also agreed to pay a civil money penalty in the amount of \$8,000,000 to the SEC.

We also agreed to distribute a sum total payment in the amount of \$857,534 to compensate certain pooled investment vehicles and separately managed accounts, and to certify, in writing, compliance with the distribution of funds, which certification was supported by written evidence of compliance and exhibits.

On November 16, 2011, we settled charges by the SEC relating to The Malaysia Fund, Inc. (the "Fund"), a closed-end management investment company that we managed. The settlement relates to the period from 1996 until the end of 2007, during which time the SEC found we represented to the Fund's investors and board of directors that the Fund's unaffiliated Malaysian sub-adviser, AMMB Consultant Senderian Berhad ("AMMB"), was providing certain services that AMMB in fact was not providing. Effective December 31, 2007, AMMB was terminated as sub-adviser to the Fund. The Fund was liquidated on August 17, 2012.

Without admitting or denying the findings, we consented to the entry of an administrative cease and desist order finding violations of Sections 15(c) and 34(b) of the Investment Company Act of 1940 and Sections 206(2) and 206(4) of the Investment Advisers Act, and Rule 206(4)-7 thereunder. We were censured and were ordered to make a reimbursement to the Fund in the amount of \$1,845,074.92 for the amount of advisory fees the Fund paid to AMMB from 1996 until the end of 2007, less a credit of \$543,000 for the portion we had already reimbursed to the Fund. We were also ordered to pay a civil money penalty in the amount of \$1,500,000 to the U.S. Treasury.

We were further ordered to implement and maintain policies and procedures, with respect to the U.S. registered mutual funds for which we serve as investment adviser, specifically governing: (1) the investment advisory contract renewal process; (2) our oversight of certain service providers, including sub-advisers; and (3) our disclosures regarding such service providers. Lastly, we were ordered to certify, in writing, compliance with the undertakings above, which certification was supported by written evidence of compliance and exhibits.

ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Broker-Dealer Affiliates

We are the parent company of Morgan Stanley Distribution, Inc. (“MSDI”), a broker-dealer registered under the Securities Exchange Act of 1934 (the “34 Act”) and the Financial Industry Regulatory Authority (“FINRA”). Certain of our management persons are registered representatives of MSDI.

We are also affiliated with Morgan Stanley & Co. LLC (“MS&Co.”), Morgan Stanley Smith Barney LLC (“MSSB”), and Prime Dealer Services Corp., each a registered broker-dealer under the 34 Act and with FINRA. We are also affiliated with foreign broker-dealers and financial services companies, including Morgan Stanley & Co. International PLC, Morgan Stanley MUFG Securities Co., Ltd., Morgan Stanley India Company Private Ltd., , Morgan Stanley Canada Limited, Morgan Stanley Australia Securities Limited, Morgan Stanley, S.V., S.A., Block Interest Discovery System (BIDS), RMB Morgan Stanley, and TradeWeb LLC (hereinafter, together with affiliated broker-dealers registered under the 34 Act, collectively referred to as “Affiliated Broker-Dealers”).

When permitted by applicable law and subject to the considerations set forth in Item 12 “Brokerage Practices”, we utilize Affiliated Broker-Dealers to effect portfolio securities, currency exchange, futures and other transactions for our managed accounts. The “Participation or Interest in Client Transactions” subsection in Item 11 “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” describes in greater detail the manner in which we utilize Affiliated Broker-Dealers to effect client transactions and the conflicts of interest that can arise.

We may pay placement fees to affiliated U.S. and non-U.S. broker-dealers.

MSDI serves as distributor, placement agent and/or underwriter for certain registered and unregistered investment companies for which we act as investment adviser and as such, may receive distribution fees pursuant to Rule 12b-1 under the 1940 Act or placement agent fees.

MSDI may pay such fees, in whole or in part, to MSSB and to any other selected dealer, including any other Affiliated Broker-Dealer, with whom MSDI has entered into a selected dealer or placement agent agreement. In addition, any sales charges derived from the purchase or redemption of an investment company managed by us are paid directly to MSSB, or to any of those other selected dealers, including any other Affiliated Broker-Dealer, from which such dealer pays its sales representatives and other costs of distribution.

Commodity Trading Advisor/Commodity Pool Operator Registration

We are registered with the Commodity Futures Trading Commission (“CFTC”) as a commodity trading advisor and a commodity pool operator. We are also a member of the National Futures Association (“NFA”). The NFA and CFTC each administer a comparable regulatory system covering futures contracts, swaps and various other financial instruments in which certain clients and pooled vehicles may invest.

Certain of our management persons and employees are registered with the NFA as our Associated Persons.

Material Arrangements or Relationships with Affiliates

We are a wholly owned subsidiary of Morgan Stanley, a corporation whose shares are publicly held and traded on the New York Stock Exchange under the 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. In addition, we participate in a Wrap Fee Program in which our affiliate is a Sponsor. These relationships can cause conflicts of interest.

Investment Advisor Affiliates

We are part of a group of investment advisers within the Morgan Stanley Investment Management business, including: (1) Morgan Stanley Investment Management (Japan) Co., Ltd.; (2) Morgan Stanley Investment Management Company; (3) Morgan Stanley Investment Management Limited; (4) Morgan Stanley AIP GP LP; (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 Mesa West Capital, LLC (together, “Affiliated Advisers”).

Morgan Stanley Investment Management Private Limited and Morgan Stanley Asia Limited (together, the “Participating Affiliates”) may indirectly provide investment advice or research to certain of our accounts. Certain personnel employed by the Participating Affiliates may indirectly provide investment advice to certain of our accounts in specialties in which they have particular expertise. The Participating Affiliates are subject to our supervision in respect of their provision of services to us and our accounts.

From time to time we may, to the extent permitted by applicable law, delegate some or all of our responsibilities, duties and authority under an investment management agreement to one or more of our Affiliated Advisers. Our Affiliated Advisers may likewise delegate some or all of their responsibilities, duties and authority to us.

Investment Companies and Other Pooled Investment Vehicles

We serve 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 Funds: Morgan Stanley Institutional Fund, Inc. (“MSIF”), Morgan Stanley Institutional Fund Trust (“MSIF Trust”), Morgan Stanley Variable Insurance Fund, Inc. (“VIF”), Morgan Stanley Variable Investment Series (“VIS”) and the Morgan Stanley Institutional Liquidity Funds, each an open-end investment company registered under the 1940 Act. VIF, Select Dimensions, and VIS may offer their shares only to insurance companies for separate accounts that they establish to fund variable life insurance and variable annuity contracts, and to other entities under qualified pension and retirement plans.

We have an arrangement with Morgan Stanley Institutional Liquidity Funds (mutual funds we advise) pursuant to which uninvested free cash balances in certain client accounts are automatically invested in shares of the portfolios of the Morgan Stanley Institutional Liquidity Funds at the end of each day. Prior to initiating this “sweep” mechanism for a particular client, we disclose the fact that we receive a fee in our capacity as adviser and administrator for the Morgan Stanley Institutional Liquidity Funds. Assets invested in the Morgan Stanley Institutional Liquidity Funds through the “sweep” mechanism will be reduced, to the extent allowed by applicable law, in determining both the fee charged by us for managing the client's account and in determining our fee as adviser and administrator for the Morgan Stanley Institutional Liquidity Funds.

We are the investment adviser and administrator to the following closed-end investment companies registered under the 1940 Act:

Morgan Stanley Asia-Pacific Fund, Inc.
Morgan Stanley China A Share Fund, Inc.
Morgan Stanley Emerging Markets Debt Fund, Inc.
Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.
Morgan Stanley Emerging Markets Fund, Inc.
The Latin American Discovery Fund, Inc.
Morgan Stanley Income Securities, Inc.
Morgan Stanley India Investment Fund, Inc.

In addition, we or our affiliate serve as the administrator for certain of the Morgan Stanley Funds and serve as co-transfer agent for the Morgan Stanley Institutional Liquidity funds.

We and certain of our affiliates also act as sub-adviser to registered investment companies which are not sponsored by us in addition to serving as adviser or sub-adviser to off-shore funds, group trusts, limited partnerships and limited liability companies, among others, that are sponsored by our affiliates.

We or our related persons may act as general partner or special limited partner of a limited partnership or managing member or special member of a limited liability company to which we serve as adviser or sub-adviser and in which our clients have been solicited to invest. In some cases, the general partner of a limited partnership is entitled to receive an incentive allocation from a partnership.

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.

Electronic Communication Networks or Alternative Trading Systems

Our affiliates have ownership interests in and/or Board seats on electronic communication networks ("ECNs") or other alternative trading systems ("ATs"). In certain instances our affiliates may be deemed to control one or more of such ECNs or ATs based on the level of such ownership interests and whether such affiliates are represented on the Board of such ECNs or ATs. Consistent with our fiduciary obligation to seek best execution, we may, from time to time, directly or indirectly, effect client trades through ECNs or other ATs in which our affiliates have or may acquire an interest or Board seat. These affiliates may receive an indirect economic benefit based upon their ownership in the ECNs or other ATs. We will, directly or indirectly, execute through an ECN or other ATs in which an affiliate has an interest only in situations where we or the broker dealer through whom we are accessing the ECN or ATs reasonably believes such transaction will be in the best interest of our clients and the requirements of applicable law have been satisfied. Our affiliates may own over 5% of the outstanding voting securities and/or have a member on the Board of certain trading systems (or their parent companies), including (i) the entities that own and control the Block Interest Discovery Service (commonly referred to as "BIDS"), (ii) Turquoise, (iii) TradeWeb Markets LLC, (iv) OTCDeriv Limited, (v) Municenter-the debtcenter, LLC, (vi) Creditderiv Limited, (vii) ISWAP Limited, (viii) Equilend, (ix) Chi-X Global Holdings LLC (CXG), (x) Euroclear PLC, (xi) LCH Clearnet Group LTD, (xii) FXGLOBALCLEAR, (xiii) EOS Precious Metals

Limited. Our affiliates may acquire interests in and/or take Board seats on other ECNs or other ATSs (or increase ownership in the ATS's listed above) in the future.

Our affiliates may receive cash credits from certain ECNs and ATSs for certain orders that provide liquidity to their books. Such ECNs and ATSs may also charge explicit fees for orders that extract liquidity from their books. From time to time, the amount of credits that our affiliates receive from one or more ECN or ATS may exceed the amount that is charged. Under these limited circumstances, such payments would constitute payment for order flow.

EquiLend also provides securities loan transaction processing and reporting services to State Street, which serves as securities lending agent for certain clients. Because an affiliate of ours owns a non-controlling interest in EquiLend, we and our affiliates may benefit from State Street's use of EquiLend's services.

Miscellaneous

We outsource certain operations functions to State Street Bank and Trust Company ("State Street"). State Street provides a full range of investment operations outsourcing services including trade settlement, portfolio administration, reporting and reconciliation services. The agreement with State Street demonstrates our continued commitment to delivering best-in-class service to our clients, while allowing us to concentrate on our core competency, institutional asset management.

ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics

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.

Additionally, all MSIM employees are subject to firm-wide policies and procedures found in the Morgan Stanley Code of Conduct (the "Code of Conduct") that 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 Morgan Stanley 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.

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 generally 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 includes affiliated and sub-advised U.S. 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 Compliance and the employee's manager. Certain of our employees who, in connection with job functions, make or participate in making recommendations regarding the purchase or sale of securities or who have

real-time knowledge of such recommendations, are held to more stringent standards when placing trades in personal accounts. Violations of the Code are subject to sanction, including reprimand, demotion, suspension or termination of employment.

We will provide you with a copy of the Code upon request.

Participation or Interest in Client Transactions

The following section addresses our trading activities, the various conflicts of interest that can arise, and how such conflicts have been addressed.

Broker-Dealer Affiliations

We do not act as principal or broker in connection with client transactions. We may, however, in the exercise of our discretion under an investment management agreement with a client, effect transactions in securities or other instruments for clients through Affiliated Broker-Dealers which perform all of the activities set forth below.

In connection with transactions in which Affiliated Broker-Dealers will act as principal, we will disclose to you that the trade will be conducted on a principal basis and obtain your consent in accordance with the provisions of and rules under the Advisers Act. We will recommend that you engage in such a transaction only when we believe that the net price for the security is at least as favorable as could have been obtained from another established dealer in such security.

Our recommendations to you may involve securities in which our Affiliated Broker-Dealers, or their officers, employees or other affiliates, have a financial interest. Affiliated Broker-Dealers and their officers, employees and other affiliates, may purchase or sell for their own accounts securities that we recommend to our clients.

If permitted by your investment objectives and guidelines, applicable law, and our policies and procedures concerning conflicts of interest, we may recommend that you purchase, or use our discretion to effect a purchase of, securities during the existence of an underwriting or other public or private offering of such securities involving an Affiliated Broker-Dealer as a manager, underwriter, initial purchaser, or placement agent. Generally, purchases directly from an Affiliated Broker-Dealer during an underwriting must comply with the provisions of the Advisers Act, other applicable laws and our policies and procedures relating to principal transactions. Among other things, we must disclose to you that the transaction involves an affiliate and obtain your consent prior to settlement of each such transaction. Purchases may be from underwriters or placement agents other than an Affiliated Broker-Dealer in distributions in which an Affiliated Broker-Dealer is a manager and/or member of a syndicate or selling group, as a result of which an Affiliated Broker-Dealer may benefit from the purchase through receipt of a fee or otherwise. Purchases from an Affiliated Broker-Dealer acting as placement agent must meet the requirements of applicable law. In situations in which you have not permitted, or where it is prohibited by law, rule or regulation, we may be unable to purchase securities for your account in an initial or other public or private offering of securities involving an Affiliated Broker-Dealer.

With your consent, and subject to the restrictions imposed on such transactions by applicable law, we will effect portfolio transactions through an Affiliated Broker-Dealer on an agency basis, including transactions in over-the-counter ("OTC") securities, where the Affiliated Broker will act as agent in connection with the purchase and sale of OTC securities from market participants and will charge our clients a commission on

the transactions. Since these are agency transactions, there is no mark up or mark down on the price of the security.

We will effect client transactions through an Affiliated Broker-Dealer when, in our judgment, you may thereby obtain the best execution of the transaction. Subject to our duty to seek best execution, we may effect such transactions through an Affiliated Broker Dealer even though the total brokerage commission for the transaction may be higher than that which might have been charged by another broker for the same transaction.

Cross and Agency Cross Transactions

We may effect "agency cross transactions" in which an Affiliated Broker-Dealer acts as agent for both the buyer and seller in the transaction. We will only trade with an Affiliated Broker-Dealer on behalf of a client on an agency cross basis when the client has consented to our effecting such transactions. Any agency cross transaction will be effected in compliance with applicable law, as well as policies and procedures we have designed to prevent and disclose potential conflicts of interest. The Affiliated Broker-Dealer can receive a commission from the seller and the buyer when it executes transactions on an agency cross basis under certain conditions. In effecting an agency cross transaction, we have potentially conflicting divisions of loyalties and responsibilities regarding the parties to the transaction.

We may effect internal "cross" transactions between client accounts in which one client will purchase securities held by another client. Such transactions are entered into generally only when we deem the transaction to be in the best interests of both clients and at a price we have determined by reference to independent market indicators and which we believe to constitute "best execution" for both parties.

We will not engage in cross-trade transactions for an advisory client whose investment management agreement does not explicitly permit the account to engage in cross trades and, as a result, that account may pay higher transaction costs for certain of its portfolio trades and our ability to achieve best execution for that client may be impacted.

While we will seek to ensure that the terms of cross trades are fair and reasonable, and the transactions are executed in a manner that is in the best interest of the clients involved in the cross trade, clients should be aware that the price of a security bought or sold through a cross trade may not be as favorable as it might have been had the trade been executed on the open market. Neither we nor any related party receives any compensation in connection with such "cross" transactions.

We, along with related persons of ours will effect portfolio transactions through an Affiliated Broker-Dealer on behalf of clients in respect of which we are a "fiduciary" as defined in the Employee Retirement Income Security Act of 1974, as amended ("ERISA") only on an agency basis and with prior written approval from an independent fiduciary in accordance with the terms of exemptions available from the Department of Labor, as well as in accordance with the restrictions imposed on such transactions by applicable law.

Fixed income instruments typically trade at a bid/ask spread and without an explicit brokerage charge. While there is not a formal trading expense or commission, clients (including Wrap Fee Program clients) will bear the implicit trading costs reflected in these spreads.

We may purchase securities on behalf of our ERISA clients from an underwriting or selling syndicate where an Affiliated Broker-Dealer participates as manager, or syndicate members with prior written approval from an independent fiduciary in accordance with the terms of exemptions available from the Department of Labor.

We and our Affiliated Advisers may execute client transactions with broker-dealers that do not have their own clearing facilities and who may clear such transactions through an Affiliated Broker- Dealer. The Affiliated Broker-Dealer will receive a clearing fee for these transactions.

Services to Issuers Activities

Along with our affiliates, we provide a variety of services for, and render advice to, various clients, including issuers of securities that we may recommend for purchase or sale by clients. In the course of providing these services, we and our affiliates may come into possession of material, nonpublic information which might affect our ability to buy, sell, or hold a security for a client account. Investment research materials disclose that our related persons may own, and may effect transactions in, securities of companies mentioned in such materials and also may perform or seek to perform investment banking services for those companies. In addition, directors, officers and employees of our affiliates may have Board seats and/or have Board observer rights with private and/or publicly traded companies in which we invest on behalf of our client accounts. Along with our affiliates, we have adopted policies and procedures and created information barriers that are reasonably designed to prevent the flow of any material, nonpublic information regarding these companies between us and our affiliates. Directors, officers and employees of ours may also take Board seats or have Board observer rights with companies in which we invest on behalf of our clients. Generally we only do so with respect to private (not publicly traded) companies. To the extent a director, officer or employee were to take a Board seat or have Board observer rights in a public company, we (or certain of our investment teams) would be limited and/or restricted in our ability to trade in the securities of the company to the extent we (or certain of our investment teams) possessed or were deemed to possess material, nonpublic information regarding the company.

Investment Banking Activities

We believe that the nature and range of clients to whom our Affiliated Broker-Dealers render investment banking and other services is such that it would be inadvisable to exclude these companies from a client's portfolio. Accordingly, unless you advise us to the contrary, it is likely that your holdings will include the securities of corporations for whom our Affiliated Broker-Dealers perform investment banking and other services. Moreover, your portfolios may include the securities of companies in which our Affiliated Broker-Dealers make a market or in which we, our officers and employees and our Affiliated Broker-Dealers or other related persons and their officers or employees have positions.

To meet applicable regulatory requirements, there are periods when we will not initiate or recommend certain types of transactions in the securities of companies for which an Affiliated Broker-Dealer is performing investment banking services. You will not be advised of that fact. In particular, when an Affiliated Broker-Dealer is engaged in an underwriting or other distribution of securities of a company, we may be prohibited from purchasing or recommending the purchase of certain securities of that company for our clients. Notwithstanding the circumstances described above, you, on your own initiative, may direct us to place orders for specific securities transactions in your account. In addition, we generally will not initiate or recommend transactions in the securities of companies with respect to which our affiliates may have controlling interests or are affiliated.

Investment Limits

Various federal, state or foreign laws, rules and regulations, as well as certain corporate charters adopted by issuers in which we may invest, limit the percentage of an issuer's securities that may be owned by us and our affiliates. We are more likely to run into these limitations than investment advisers with fewer assets under management and/or that are not affiliated with a large financial institution or financial holding company. In certain instances, for purposes of these ownership limitations, our holdings on behalf of our

client accounts will be aggregated with the holdings of our affiliates. These ownership limitations may be in the form of, among others: (i) a strict prohibition against owning more than a certain percentage of an issuer's securities (the "threshold"); (ii) a "poison pill" that would have a material dilutive impact on our holdings in that issuer should we and our affiliates exceed the threshold; (iii) provisions that would cause us and our affiliates to be considered "interested stockholders" of an issuer if we and our affiliates exceed the threshold; and (iv) provisions that may cause us and our affiliates to be considered an "affiliate" or "control person" of the issuer. We will generally avoid exceeding the threshold in these situations. With respect to situations in which we and our affiliates may be considered "interested stockholders" (or a similar term), we will generally avoid exceeding the threshold because if we were considered an interested stockholder, we, along with our affiliates would be prohibited (in some cases absent Board and/or shareholder approval) from entering into certain transactions or performing certain services (including investment banking, financial advisory and securities lending) with or for the issuer. We will also generally avoid exceeding a threshold in situations in which we may be considered an affiliate of the issuer for the reasons set forth above, as well as the fact that should we be considered an affiliate of an issuer, our ability to trade in the issuer's securities would become limited. For additional information on certain regulatory risks, including the Volcker Rule, please see the "Legal and Regulatory Risks" sub-section in Item 8, "Methods of Analysis, Investment Strategies and Risk of Loss"

Investments in Other MSIM Investment Funds

When permitted by applicable law and the investment guidelines applicable to individual client accounts, and considered by us to be in the best interests of a client, we may recommend to you, and invest the assets of your accounts in various closed-end and open-end investment companies and other pooled investment vehicles for which we or our affiliates receive compensation for advisory, administrative, or other services.

In certain circumstances, when required by applicable law or by agreement with you, we may waive our investment management fee with respect to assets invested in pooled investment vehicles to the extent of some or all of the compensation received by us and our affiliates for services rendered with respect to such pooled investment vehicles.

Investment Management Activities

It is possible that our officers or employees may buy or sell securities or other instruments that we have purchased on behalf of or recommended to clients. Moreover, we may purchase and sell on behalf of or recommend to clients the purchase or sale of securities in which we or our officers, employees or related persons have a financial interest. These transactions are subject to our policies and procedures regarding personal securities trading, as well as to the requirements of the Advisers Act, the 1940 Act and other applicable laws. Our policies and procedures, the Advisers Act and the 1940 Act require that we put your interests before our own.

From time to time, various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of us, and our affiliates, and personnel (each, an "Advisory Affiliate" and, collectively, the "Advisory Affiliates").

The Advisory Affiliates may manage long and short portfolios. The simultaneous management of long and short portfolios creates potential conflicts of interest in portfolio management and trading in that opposite directional positions may be taken in client accounts managed by the same investment team, and creates potential risks such as (i) the risk that short sale activity could adversely affect the market value of long positions in one or more portfolios (and vice versa) and (ii) the risks associated with the trading desk receiving opposing orders in the same security simultaneously. The Advisory Affiliates have adopted policies and procedures that are reasonably designed to mitigate these potential conflicts. The Advisory

Affiliates may invest on behalf of themselves in securities and other instruments that would be appropriate for, held by, or may fall within the investment guidelines of the mutual funds and/or managed accounts managed by them (collectively, the "Advisory Clients"). The Advisory Affiliates may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for any of the Advisory Clients.

Potential conflicts also may arise due to the fact that certain securities or instruments may be held in some Advisory Clients but not in others, or the Advisory Clients may have different levels of holdings in certain securities or instruments, and because the Advisory Clients may pay different levels of fees to us. In addition, an Advisory Affiliate may give advice or take action with respect to the investments of one or more Advisory Clients that may not be given or taken with respect to other Advisory Clients with similar investment programs, objectives, and strategies. Accordingly, Advisory Clients with similar strategies may not hold the same securities or instruments or achieve the same performance. The Advisory Affiliate also may advise Advisory Clients with conflicting programs, objectives or strategies.

Any of the foregoing activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more Advisory Clients. Finally, the Advisory Affiliates may have conflicts in allocating their time and services among their Advisory Clients. We will devote as much time to each of our Advisory Clients as we deem appropriate to perform our duties in accordance with our respective management agreements.

Different clients of ours, including funds advised by us or an affiliate, may invest in different classes of securities of the same issuer, depending on their respective client's investment objectives and policies. As a result, we may at times seek to satisfy our fiduciary obligations to certain clients owning one class of securities of a particular issuer by pursuing or enforcing rights on behalf of those clients with respect to such class of securities, and those activities may have an adverse effect on another client, which owns a different class of securities of such issuer. For example, if one client holds debt securities of an issuer and another client holds equity securities of the same issuer, if the issuer experiences financial or operational challenges, we may seek a liquidation of the issuer on behalf of the client that holds the debt securities, whereas the client holding the equity securities may benefit from a reorganization of the issuer. Thus, the actions taken on behalf of one client may negatively impact securities held by another client. We have adopted procedures pursuant to which conflicts of interest, including those resulting from the receipt of material, nonpublic information about an issuer, are managed by our employees through information barriers and other practices.

We, or our affiliates, may pursue acquisitions of assets and businesses and identify an investment opportunity in connection with its existing businesses or a new line of business without first offering the opportunity to fund of funds clients. Such an opportunity could include a business that competes with a fund of funds or an investment fund or a co-investment in which a fund of funds client has invested or proposes to invest.

From time to time, we may be retained to manage assets on behalf of a client that is a public or private company in which we have invested or may invest on behalf of our mutual funds and other client accounts.

General Process with Potential Conflicts

All of the transactions described above involve the potential for conflicts of interest between us or related persons of ours and our clients. The Advisers Act, the 1940 Act and ERISA impose certain requirements designed to decrease the possibility of conflicts of interest between an investment adviser and its clients. In some cases, transactions may be permitted subject to fulfillment of certain conditions. Certain other transactions may be prohibited. In addition, we have instituted policies and procedures designed to prevent

conflicts of interest from arising and, when they do arise, to ensure that it effects transactions for clients in a manner that is consistent with its fiduciary duty to its clients and in accordance with applicable law. We seek to ensure that potential or actual conflicts of interest are appropriately resolved taking into consideration the overriding best interest of the client.

We have adopted policies and procedures and established controls such as the MSIM Conflicts of Interest and Franchise Committee designed to require review of transactions in which conflicts of interest may exist, including those described above, to ensure that applicable policies and legal and regulatory requirements are followed.

ITEM 12 BROKERAGE PRACTICES

Best Execution and Brokerage Selection Factors

We select broker-dealers for the execution of transactions for client accounts in accordance with our duty to seek “best execution” (i.e., the most favorable overall price and execution). In seeking best execution, we are not obligated to choose the broker-dealer offering the lowest available commission rate if, in our reasonable judgment, (i) we believe that the total costs or proceeds from the transaction might be less favorable than may be obtained elsewhere; (ii) a higher commission is justified by the brokerage and research services provided by the broker-dealer that fall within the safe harbor of Section 28(e) of the 1934 Act (“Section 28(e)”) or otherwise is permitted under applicable law, rules, and regulations of the relevant jurisdictions in which we operate (collectively, “Applicable Law”); or (iii) other considerations, such as the order size, the time required for execution, the depth and breadth of the market for the security, minimum credit quality requirements to transact business with a particular broker-dealer, or the quality of the broker-dealer’s back office or other considerations support our decision to use a different broker-dealer.

When effecting transactions on behalf of clients, we may trade with any broker-dealer on our list of approved broker-dealers. Approved broker-dealers have met criteria as established by our Counterparty Risk Subcommittee (“CRS”). Our CRS reviews and approves broker-dealers periodically to determine whether broker-dealers on our approved list continue to meet such criteria. When selecting an approved broker-dealer (including an affiliate) to execute securities transactions, the trading desk may consider the following factors:

- Best available price;
- Reliability, integrity and reputation in the industry (which may include a review of financial information and creditworthiness);
- Execution capabilities, including block positioning, speed of execution and quality and responsiveness of its trading desk;
- Knowledge of and access to the markets for the securities being traded;
- Potential ability to obtain price improvement;
- Ability to maintain confidentiality;
- Ability to handle non-traditional trades;
- Commission and commission-equivalent rates;
- Technology infrastructure;
- Clearance and settlement capabilities;
- The size of the trade relative to other trades in the same instrument;
- Ability of our counterparty to commit its capital to our trade and its access to liquidity;
- Counterparty restrictions associated with a portfolio, including regulatory trading, documentation requirement, or any specific clearing broker-dealer requirements;

- Client directed execution;
- Client specific restrictions; and
- Such other factors as may be appropriate.

Soft Dollars – Commission Sharing Arrangements

Subject to our duty to achieve best execution, we and certain of our Affiliated Advisers use a portion of the commissions generated when executing client transactions to acquire brokerage and research services that aid us in fulfilling our investment decision-making responsibilities in accordance with Section 28(e) and Applicable Law. Commissions paid to broker-dealers providing us brokerage and research services may be higher than those charged by other broker-dealers. We receive a benefit when we use client commissions to obtain brokerage and research services because we do not have to produce or pay for the brokerage research services ourselves. Therefore, we have an incentive to select or recommend a broker-dealer based on our interest in receiving brokerage and research services, rather than solely on our clients' interest in obtaining the best price.

We have adopted policies and procedures designed to help us track and evaluate the benefits we receive from brokerage and research services, as well as to track how much our clients pay above the amount that broker-dealers from which we receive brokerage and research services may have charged solely for execution of such trades. We and our Affiliated Advisers utilize a voting system to assist us in making a good faith determination of the value of brokerage and research services we receive in accordance with Section 28(e) and Applicable Law. In many cases, these involve subjective judgments or approximations. We and our Affiliated Advisers have established a process for budgeting research costs and allocating such costs across client accounts. Each of our portfolio management ("PM") teams establishes a research budget at the start of each calendar year that sets the expected cost to be spent by the team on external research services for the same year. These research budgets are initially reviewed and approved by our Research Committee, allocated across all accounts managed by the PM team in accordance with our policies and procedures and reviewed on a regular basis.

We and certain of our Affiliated Advisers have entered into commission sharing arrangements ("CSAs") with executing brokers ("CSA Partners") and a third party vendor ("CSA Aggregator") that assist us with administration of our trade execution arrangements, including payments for brokerage and research services. Pursuant to these arrangements, and under our supervision, the CSA Partners and the CSA Aggregator track execution and research commissions separately and pool and distribute research credits in accordance with the policies and procedures discussed above to approved research providers (which may include executing brokerage firms or independent research providers ("Approved Research Providers")) that provide us with brokerage and research services. They also reconcile research credits from trades with CSA Partners and that are payable to Approved Research Providers and provide other related administrative functions. In addition, a CSA Partner may provide us and our Affiliated Advisers with proprietary research it has developed and, upon our instruction, may retain research commission credits as compensation for the provision of such proprietary research services. We believe that these arrangements allow us to monitor the amount of trading costs that are attributable to execution services on the one hand and other brokerage and research services on the other.

Transactions that generate research credits include equity transactions executed on an agency basis where the executing broker-dealer receives a commission. We and our Affiliated Advisers do not use CSAs or otherwise have arrangements to pay for brokerage and research services with client commissions in connection with trading fixed income securities. Consistent with long-standing industry practice in the fixed income markets, however, we and our Affiliated Advisers, subject to Applicable Law, may receive brokerage and research services and other information, including access to fixed income trading platforms that dealers provide for no charge to their customers in the ordinary course of business. Fixed income

instruments typically trade at a bid/ask spread and without an explicit brokerage charge. While there is not a formal trading expense or commission, clients will bear the implicit trading costs reflected in these spreads.

We and our Affiliated Advisers may receive “mixed use” products and services from an Approved Research Provider, where a portion of the product or service assists us in our investment decision-making process in accordance with Section 28(e) and a portion may be used for other purposes. Where a product or service has a mixed use, we will make a reasonable allocation of its cost according to its use and will use client commissions to pay only for the portion of the product or service that assists us in our investment decision-making process. We and our Affiliated Advisers may have an incentive to allocate the costs to uses that assist us in our investment decision-making process because we may pay for such costs with client commissions rather than our own resources. To the extent we receive “mixed use” products and services, we and our Affiliated Advisers will allocate the anticipated costs of a mixed use product or service in good faith and maintain records concerning our allocations in order to mitigate such conflicts.

Client accounts that pay a greater amount of commissions relative to other accounts may bear a greater share of the cost of brokerage and research services than such other accounts. We may use brokerage and research services obtained with brokerage commissions from some clients for the benefit of other clients whose brokerage commissions do not pay for such brokerage and research services. We may also share brokerage and research services with our Affiliated Advisers, and the clients of our Affiliated Advisers may receive the benefits of such brokerage and research services. These arrangements remain subject to our overall obligation to seek best execution for our client trading.

Certain of our Affiliated Advisers are subject to the European Union’s Markets in Financial Instruments Directive II (“MiFID II” and such Affiliated Advisers, “MiFID II Affiliated Advisers”), which is a European regulation governing conduct by investment advisers, among others. Under MiFID II, our MiFID II Affiliated Advisers may receive research (other than research that qualifies as a “Minor Non-Monetary Benefit” under MiFID II (“MNB”)) without it constituting an unlawful inducement if they pay for the research directly from their own resources or from research payment accounts funded by their clients. Our MiFID II Affiliated Advisers may engage us as sub-adviser or otherwise delegate to us authority to manage their client accounts (“MiFID II Accounts”). While we are not directly subject to the provisions of MiFID II, in accordance with those arrangements, we make a reasonable valuation and allocation of the cost of the research as between MiFID II Accounts and other accounts that participate in CSAs and will pay for any research we receive with respect to MiFID II Accounts (other than research that qualifies as a MNB) from our own resources. We and our MiFID II Affiliated Advisers may separately pay for fixed income research from their own resources.

Trade Aggregations

When permitted under Applicable Law, each PM team generally will aggregate orders of its clients for the same securities in a single order so that such orders are executed simultaneously in order to facilitate best execution and to reduce brokerage costs. We may aggregate client orders with the orders of clients of our Affiliated Advisers and accounts in which we or our officers, employees or related persons have a financial interest. However, we effect aggregated orders in a manner designed to ensure that no participating client is favored over any other client.

In general, accounts that participate in an aggregated order will participate on a pro rata or other objective basis. Pro rata allocation of securities and other instruments will generally consist of allocation based on the order size of a participating client account in proportion to the size of the orders placed for other accounts participating in the aggregated order. However, we may allocate such securities and other instruments using a method other than pro rata if their supply is limited, based on differing portfolio characteristics among accounts or to avoid odd lots or small allocations, among other reasons. These allocations are made

in our good faith judgment with a goal of ensuring that fair and equitable allocation will occur over time. There may be times that we are not able to aggregate orders because of Applicable Law or other considerations when doing so might otherwise be advantageous.

We and our Affiliated Advisers are subject to differing requirements governing aggregation of orders, including provisions of the 1940 Act that restrict joint transactions and MiFID II that govern the circumstances under which MiFID II Accounts may pay for research. As a result, MiFID II Accounts included in an aggregated order may pay commission rates that are below the total commission rates paid by other client accounts included in the order.

Directed Brokerage Arrangements and Wrap Fee Programs

Clients may limit our authority to advise accounts or execute transactions in a number of ways, including by (1) requiring that certain securities transactions be authorized by them in advance, (2) prohibiting or limiting the purchasing of certain securities or industry groups or (3) seeking to require that all or a portion of their transactions be executed through a designated broker-dealer (“Designated Broker”) and/or restricting us from executing transactions through a particular broker-dealer (“Directed/Restricted Trades”). Designated Broker arrangements may be structured as “directed brokerage” arrangements or as “brokerage recapture” arrangements.

In addition, a Wrap Fee Program client may impose reasonable restrictions on the management of their account. In most Wrap Fee Programs, the Sponsor or overlay manager is responsible for implementing client restrictions and guidelines. In those Wrap Fee Programs in which we are responsible for implementing client restrictions and guidelines, the client is responsible for identifying any security or group of securities which may not be held in the account. If a client identifies a category of restricted securities without identifying the underlying companies of which the category is comprised or a source for identifying such underlying companies, we may utilize outside service providers to identify the universe of companies that will be considered in such category. When a security is required to be sold or is restricted from being purchased for an account, this may adversely affect the account’s performance and cause it not to track the performance of the managers’ investment strategies. The change of the classification of a company, the grouping of an industry or the credit rating of a security may force us to sell securities in a client’s account at an inopportune time, possibly causing a taxable event to the client. Clients will still be exposed to securities they restrict if they hold in their account commingled vehicles that invest in such securities.

In certain instances, Wrap Fee Program accounts may bear additional costs as compared to our other client accounts. For example, Wrap Fee Program accounts that hold fixed income instruments will bear the implicit costs of such instruments’ bid/ask spread that are in addition to the “wrap” fee paid to the Sponsor. With respect to certain Wrap Fee Programs, rather than “wrap” our fees for investment advisory services together with the Sponsor’s fees for brokerage, custody and other services, we enter into an investment advisory contract directly with the Wrap Fee Program Sponsor’s clients and receive our investment advisory fee directly from those clients. Because the clients have also entered into an agreement with the Sponsor to provide for brokerage and other services at a fixed cost or rate, we place most or all trades for those clients through the Sponsor. We may enter into arrangements with Wrap Fee Programs where we have discretion to select broker-dealers to execute trades for accounts. If we select a broker-dealer other than the Sponsor to execute a trade, the Wrap Fee Program accounts typically will bear any execution costs charged by that other broker-dealer in addition to the “wrap” fee paid to the Sponsor.

The restrictions imposed by Designated Broker arrangements and Wrap Fee Programs may cause us to trade the securities held by these accounts differently as compared to how we trade for client accounts for which

we are not so restricted. Directed/Restricted Trades and Wrap Fee Program trades may not be aggregated for execution with transactions in the same securities for other clients, and we may be unable to obtain best execution on Directed/Restricted Trades or Wrap Fee Program trades for a number of reasons, which may include:

- A client direction may restrict our ability to obtain as favorable a transaction price or commission rate as we might otherwise be able to obtain on an unrestricted trade;
- The account may forego benefits from savings on execution costs that may otherwise be obtained, most notably commission savings and/or price improvement that derive from aggregating orders for various client accounts;
- If a Designated Broker or Wrap Fee Program Sponsor is not on our approved list of brokers, there may be additional credit and/or settlement risk for such trades;
- We will not be obligated to, and in most cases will not, negotiate with a Designated Broker or Wrap Fee Program Sponsor to obtain commission rates more favorable or otherwise different than those to which the client has agreed;
- A Directed/Restricted Trade or Wrap Fee Program trade may result in a client account paying higher or otherwise different commissions than other clients of ours for transactions in the same security; and
- We may effect a transaction through a Designated Broker pursuant to a Directed/Restricted Trade or provide the applicable models, recommendations or updates to one or more Wrap Fee Program Sponsors after another broker has effected transactions in the same security for client accounts for which we have discretion to select the broker and trading venue, which also could negatively affect the prices received by clients that direct trades or Wrap Fee Program clients.

Notwithstanding the foregoing, where a client has directed brokerage for its account and maintains that we remain subject to best execution, if eligible, we may aggregate those Directed/Restricted Trades along with trades executed for other client accounts through the broker-dealer that we believe will offer the best execution for such transaction and, thereafter, instruct such broker-dealer to “step-out” or allocate a portion of the trades to the client’s Designated Broker for billing and settlement.

With respect to Wrap Fee Programs, the terms of each client’s account in a Wrap Fee Program is governed by the client’s agreement with the Sponsor and disclosure document for each Wrap Fee Program. Wrap Fee Program clients are urged to refer to the appropriate disclosure document and client agreement for more information about the Wrap Fee Program, MSIM’s advisory services and fees. The fees for a Wrap Fee Program may result in higher costs than a client would otherwise realize by paying our standard advisory fees and negotiating separate arrangements for trade execution, custodial and consulting services.

Designated Brokers, including those participating in “step-out” arrangements, and broker-dealers executing trades for our Wrap Fee Program clients generally do not provide us with the brokerage and research services. As a result, the brokerage and research services obtained with brokerage commissions from our clients that do not participate in Designated Brokerage arrangements or Wrap Fee Programs may be used for the benefit of our clients who do so participate, which may result in such other client accounts bearing a greater share of research costs than clients participating in Designated Broker arrangements and Wrap Fee Programs. These arrangements remain subject to our overall obligation to obtain best execution for our client trading.

ITEM 13 REVIEW OF ACCOUNTS

Our portfolio managers generally review all accounts on a daily basis. Accounts are reviewed for a number of factors, including but not limited to, performance, sector and asset allocation, adherence to investment

policies and strategies and specific security ownership, all within the context of client guidelines and objectives.

If we manage your money as a separate account, you are provided reports of transactions as they are effected (if you request), portfolio valuations and summaries of portfolio changes on a quarterly basis or as otherwise negotiated with you. Additionally, we will meet with you quarterly, annually or as requested to discuss the performance of your account, our management of your account, and any other issues of concern to you. We will provide additional reports or information to you upon request.

With respect to model portfolios offered through our Wrap Fee Program, models are generally reviewed on a daily basis.

ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION

We have compensated, and may continue to compensate, affiliates and unrelated third parties for client referrals in accordance with Rule 206(4)-3 of the Advisers Act. The compensation paid to any such entity will typically consist of a cash payment stated as a percentage of our advisory fee, but may include cash payments determined in other ways.

We are also referred advisory clients by affiliated and unaffiliated parties/consultants that are retained by clients or prospective clients. While we do not make payments for solicitations or client referrals to these consultants, we 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 consultants and/or their affiliates.

These arrangements may cause referrals to us by these affiliates and other third parties for reasons other than the client's best interest.

ITEM 15 CUSTODY

We may be deemed to have "custody" of client assets in a variety of circumstances, and in each case we will comply with the custody requirements under the Advisers Act. We have custody of client assets any time that we have authority or ability to obtain possession of client assets. We may be deemed to have custody of the assets of the funds for which we or an affiliate serves as general partner or for which we or an affiliate serves as the managing member or otherwise has the authority or ability to obtain possession of fund assets. In those cases, the funds generally provide audited financial statements on an annual basis in accordance with applicable law. Additionally, where we are deemed to have custody over other advisory client accounts, clients will receive quarterly account statements from the qualified custodian for such account. Clients should carefully review the account statements received from the qualified custodian and compare them to statements received from us. If a client elects to retain our affiliate, MSSB, to act as qualified custodian of its account we may be deemed to have "custody" of those assets as well. We may also be deemed to have "custody" over our client accounts from which we are authorized to deduct fees or other expenses.

With respect to Wrap Fee Program clients, we may be deemed to have custody of assets if we contract directly with the Wrap Fee Program clients for services and if an affiliate of MSIM acts as Sponsor of the Wrap Fee Program. In such cases, the Sponsor or a qualified custodian will send required periodic account statements to the Wrap Fee Program client.

ITEM 16 INVESTMENT DISCRETION

We typically receive discretionary authority to select the securities and other instruments to be bought or sold at the time we establish an advisory relationship with you by entering into an investment management agreement. In all cases, however, such discretion is exercised in a manner consistent with your stated investment objectives and guidelines. As discussed under Item 12, “Brokerage Practices”, in this Brochure, you may impose certain limitations on our use of broker-dealers.

For registered investment companies, our authority to trade securities may also be limited by certain federal securities and tax laws that require, among other things, diversification of investments.

ITEM 17 VOTING CLIENT SECURITIES

We use our best efforts to vote proxies as part of our authority to manage, acquire and dispose of account assets. We and our affiliates generally vote proxies under the MSIM Proxy Voting Policies and Procedures (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 Morgan Stanley Funds. We will not vote proxies unless the investment management or investment advisory agreement explicitly authorizes us to vote proxies.

We and our affiliates will vote proxies in a prudent and diligent manner and in the best interests of clients, including beneficiaries of and participants in a client’s benefit plan(s) for which we manage assets, consistent with the objective of maximizing long-term investment returns (the “Client Proxy Standard”). In certain situations, you may provide us with a proxy voting policy. In these situations, we will comply with your policy. In addition to voting proxies at portfolio companies, MSIM routinely engages with the management and may also engage with the board, of companies in which we invest on a range of governance issues. Governance is a window into or proxy for management and board quality. MSIM engages with companies where we have larger positions, voting issues are material or where we believe we can make a positive impact on the governance structure. MSIM’s engagement process, through private communication with companies, allows us to understand the governance structures at investee companies and better inform our voting decisions.

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.

From time to time, MSIM retains third-party advisers to provide a variety of proxy-related services, including in-depth research, global issuer analysis, and voting recommendations (“Research Providers”). While MSIM may review and utilize the recommendations of such Research Providers, MSIM is in no way obligated to follow such recommendations, and votes all proxies based on the Policy and Client Proxy Standard.

Votes on board 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, financial knowledge and experience, executive and director remuneration practices, and board responsiveness. We consider withholding support from or voting against a nominee if it believes 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 client. 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 as reasonable, and if plan provisions sufficiently protect shareholder interests. We also support appropriately structured bonus and employee stock purchase plans. We support proposals that if implemented would enhance useful disclosure, but we generally vote against proposals requesting reports that we believe are duplicative, related to matters not material to the business, or that would impose unnecessary or excessive costs.

We consider social and environmental shareholder proposals on a case-by-case basis.

Process: An MSIM 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 our Corporate Governance Team 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: You may contact your Client Representative or Financial Advisor for information on how to obtain a copy of the Policy or proxy voting records. In the case of registered investment companies we advise, the fund’s proxy voting records filed with the SEC are available (i) without charge by accessing the Mutual Fund Center on our web site at www.morganstanley.com/funds and (ii) on the SEC’s web site at www.sec.gov.

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 have not been the subject of a bankruptcy proceeding.

Appendix A

Fee Schedules

Fee Schedules

Core Plus Fixed Income .250% on the first \$50 million of assets under management .200% on the next \$50 million of assets under management .150% on assets in excess of \$100 million	Account Minimum: \$50 million
Core Fixed Income .200% on the first \$50 million of assets under management .150% on the next \$50 million of assets under management .125% on assets in excess of \$100 million	Account Minimum: \$50 million
Short and Limited Duration .150% on the first \$75 million .100% on the next \$75 million	Account Minimum: \$50 million
Short and Limited Duration .100% on the first \$150 million .075% on the next \$350 million .060% on assets in excess of \$500 million	Account Minimum: \$150 million
Long Duration .200% on the first \$50 million of assets under management .150% on the next \$50 million of assets under management .125% on assets in excess of \$100 million	Account Minimum: \$50 million
Mortgage Backed Securities .15% on the first \$50 million of assets under management .12% on the next \$50 million of assets under management .10% on assets in excess of \$100 million	Account Minimum: \$50 million
US High Yield .500% on the first of \$50 million of assets under management .400% on the next of \$50 million of assets under management .300% on assets in excess of \$100 million	Account Minimum: \$50 million
Emerging Markets External Debt .500% on the first \$50 million of assets under management .450% on the next \$50 million of assets under management .400% on assets in excess of \$100 million	Account Minimum: \$50 million
Emerging Markets Domestic Debt .550% on the first \$50 million of assets under management .500% on the next \$50 million of assets under management .450% on assets in excess of \$100 million	Account Minimum: \$50 million

<p>Emerging Markets Corporate Debt</p> <p>.600% on the first \$50 million of assets under management</p> <p>.550% on the next \$50 million of assets under management</p> <p>.500% on assets in excess of \$100 million</p>	Account Minimum: \$50 million
<p>Emerging Markets Fixed Income Opportunities</p> <p>.550% on the first \$50 million of assets under management</p> <p>.500% on the next \$50 million of assets under management</p> <p>.450% on assets in excess of \$100 million</p>	Account Minimum: \$50 million
<p>Global Aggregate Fixed Income</p> <p>.300% on the first \$50 million of assets under management</p> <p>.250% on the next \$50 million of assets under management</p> <p>.200% on assets in excess of \$100 million</p>	Account Minimum: \$50 million
<p>European Absolute Return</p> <p>.300% on the first €50 million of assets under management</p> <p>.250% on the next €50 million of assets under management</p> <p>.150% on assets in excess of €100 million</p>	Account Minimum: €50 million
<p>Sterling Credit</p> <p>.250% on the first £30 million of assets under management</p> <p>.220% on the next £30 million of assets under management</p> <p>.200% on assets in excess of £60 million</p>	Account Minimum: £50 million
<p>Euro High Yield</p> <p>.400% on the first €50 million of assets under management</p> <p>.350% on the next €50 million of assets under management</p> <p>.300% on assets in excess of €100 million</p>	Account Minimum: €50 million
<p>Euro Short Maturity</p> <p>.200% on the first €50 million of assets under management</p> <p>.150% on the next €50 million of assets under management</p> <p>.150% on assets in excess of €100 million</p>	Account Minimum: €50 million
<p>Euro Aggregate</p> <p>.250% on the first €50 million of assets under management</p> <p>.200% on the next €50 million of assets under management</p> <p>.150% on assets in excess of €100 million</p>	Account Minimum: €50 million
<p>European Credit</p> <p>.250% on the first €50 million of assets under management</p> <p>.220% on the next €50 million of assets under management</p> <p>.15% on assets in excess of €100 million</p>	Account Minimum: €50 million
<p>Global Sovereign</p> <p>.250% on the first \$50 million of assets under management</p> <p>.200% on the next \$50 million of assets under management</p> <p>.150% on assets in excess of \$100 million</p>	Account Minimum: \$50 million

Global Credit	Account Minimum: \$50 million
.300% on the first \$50 million of assets under management	
.300% on the next \$50 million of assets under management	
.250% on assets in excess of \$100 million	
Global Limited Duration	Account Minimum: \$50 million
.250% on the first \$50 million of assets under management	
.150% on the next \$50 million of assets under management	
.100% on assets in excess of \$100 million	
Global Fixed Income Opportunities/Strategic Income	Account Minimum: \$50 million
.400% on the first \$50 million of assets under management	
.350% on the next \$50 million of assets under management	
.300% on assets in excess of \$100 million	
International Fixed Income	Account Minimum: \$50 million
.300% on the first \$50 million of assets under management	
.250% on the next \$50 million of assets under management	
.200% on assets in excess of \$100 million	
Global Convertibles	Account Minimum: €50 million
.500% on the first €50 million of assets under management	
.450% on the next €50 million of assets under management	
.400% on assets in excess of €100 million	
Global High Yield	Account Minimum: \$50 million
.500% on the first \$50 million of assets under management	
.450% on the next \$50 million of assets under management	
.400% on assets in excess of \$100 million	
Global Securitized	Account Minimum: \$50 million
.300% on the first \$50 million of assets under management	
.250% on the next \$50 million of assets under management	
.200% on assets in excess of \$100 million	
Investment Grade Corporate	Account Minimum: \$50 million
.300% on the first \$50 million of assets under management	
.250% on the next \$50 million of assets under management	
.200% on assets in excess of \$100 million	
Global Buy and Hold	Account Minimum: \$50 million
.300% on the first \$50 million of assets under management	
.250% on the next \$50 million of assets under management	
.200% on assets in excess of \$100 million	

Global Emerging Markets 0.950% on the first \$100 million of assets under management 0.900% on the next \$100 million of assets under management 0.850% on the next \$100 million of assets under management 0.800% on assets in excess of \$300 million	Account Minimum: \$100 million
Emerging Markets Leaders 0.900% on all assets under management	Account Minimum: \$100 million
Emerging Markets Small Cap 1.25% on all assets under management	Account Minimum: \$100 million
Emerging Markets Breakout Nations .900% on all assets under management	Account Minimum: \$100 million
Emerging Europe, Middle East & Africa 0.950% on the first \$50 million of assets under management 0.900% on the next \$50 million of assets under management 0.850% on assets in excess of \$100 million	Account Minimum: \$50 million
Latin America Equity 0.950% on the first \$50 million of assets under management 0.900% on the next \$50 million of assets under management 0.850% on assets in excess of \$100 million	Account Minimum: \$50 million
Indian Equity 0.900% on all assets under management	Account Minimum: \$50 million
Asian Equity 0.800% on the first \$50 million in assets under management 0.700% in excess of \$50 million in assets under management	Account Minimum: \$50 million
China A Equity 0.900% on all assets under management	Account Minimum: \$50 million
Growth 0.750% on the first \$50 million of assets under management 0.500% on the next \$25 million of assets under management 0.400% on the next \$25 million of assets under management Negotiable thereafter	Account Minimum: \$25 million
Mid Cap Growth 0.800% on the first \$25 million of assets under management 0.700% on the next \$25 million of assets under management 0.650% on the next \$50 million 0.550% on assets in excess of \$100 million	Account Minimum: \$25 million
Small Company Growth 1.10% on the first 25 million of asset under management 0.900% on the next \$25 million of assets under management 0.850% on assets in excess of \$50 million	Account Minimum: \$25 million

Multi Cap Growth Asset Based Fee: 1.00% on total assets under management or Performance Based Fee: 0.80% on all assets plus 10% of alpha over benchmark per annum, no high water mark	Account Minimum: \$25 million
Advantage 0.750% on the first \$50 million of assets under management 0.500% on the next \$25 million of assets under management 0.400% on the next \$25 million of assets under management Negotiable thereafter	Account Minimum: \$25 million
Global Opportunity 0.750% on the first \$100 million of assets under management 0.650% on assets in excess of \$100 million	Account Minimum: \$100 million
Asia Opportunity/International Opportunity/International Advantage 0.750% on the first \$100 million of assets under management 0.650% on assets in excess of \$100 million	Account Minimum: \$50 million
International Equity 0.800% on the first \$25 million of assets under management 0.600% on the next \$25 million of assets under management 0.500% on the next \$25 million of assets under management 0.400% on assets in excess of \$75 million	Account Minimum: \$100 million
Global Franchise 0.800% on the first \$25 million in assets under management 0.750% on the next \$25 million in assets under management 0.700% on the next \$50 million in assets under management 0.650% on assets in excess of \$100 million	Account Minimum: \$50 million
Global Quality 0.800% on the first \$25 million in assets under management 0.750% on the next \$25 million in assets under management 0.700% on the next \$50 million in assets under management 0.650% on assets in excess of \$100 million	Account Minimum: \$50 million
European Equity Alpha 0.700% on the first \$25 million of assets under management 0.600% on the next \$25 million of assets under management 0.500% on the next \$50 million of assets under management 0.400% on assets in excess of \$100 million	Account Minimum: \$25 million
Eurozone Equity 0.750% on the first \$25 million of assets under management 0.650% on the next \$25 million of assets under management 0.550% on the next \$50 million of assets under management 0.450% on assets in excess of \$100 million	Account Minimum: \$25 million

European Champions

0.750% on the first \$25 million of assets under management
0.650% on the next \$25 million of assets under management
0.550% on the next \$50 million of assets under management
0.450% on assets in excess of \$100 million

Account Minimum: \$25 million

Active International Allocation

0.650% on the first \$100 million in assets under management
0.600% on the next \$100 million in assets under management
0.550% on assets in excess of \$200 million

Account Minimum: \$50 million

Global Equity Allocation

0.650% on the first \$100 million in assets under management
0.600% on the next \$100 million in assets under management
0.550% on assets in excess of \$200 million

Account Minimum: \$50 million

Global Real Estate Securities

0.750% on the first \$100 million in assets under management
0.500% on the next \$300 million in assets under management
0.400% on assets in excess of \$400 million

Account Minimum: \$75 million

Europe, Asia, International, North America and
US Real Estate Securities

0.650% on the first \$100 million in assets under management
0.500% on assets in excess of \$100 million

Account Minimum: 50 million

Global Real Estate Securities Best Ideas

Base fee of 1.00%, plus a performance-based fee of 10%
of the outperformance versus the benchmark

Account Minimum: \$75 million

Global Real Estate Securities Concentrated

.0.750% on the first \$100 million in assets under management
0.500% on assets in excess of \$100 million

Account Minimum: \$75 million

Global Infrastructure Securities

0.700% on the first \$50 million in assets under management
0.600% on the next \$50 million in assets under management
0.500% on the next \$300 million in assets under management
0.400% on assets in excess of \$400 million

Account Minimum: \$50 million

Listed Real Assets

0.750% on the first \$100 million in assets under management
0.500% on the next \$300 million in assets under management
0.400% on assets in excess of \$400 million

Account Minimum: \$100 million

Global Tactical Asset Allocation

0.750% on the first \$100 million of assets under management
0.650% on the next \$150 million of assets under management
0.550% on the next \$250 million of assets under management

Account Minimum: \$100 million

0.450% thereafter

Global Multi-Asset

0.750% on the first \$100 million of assets under management
0.650% on the next \$150 million of assets under management
0.550% on the next \$250 million of assets under management
0.450% thereafter

Account Minimum: \$100 million

Absolute Return

0.850% on the first \$100 million of assets under management
0.750% on the next \$150 million of assets under management
0.650% on the next \$250 million of assets under management
0.550% thereafter

Account Minimum: \$100 million

Integrated Global Equity

0.900% on the first \$25 million of assets under management
0.750% on the next \$25 million of assets under management
0.650% on the next \$25 million of assets under management
0.600% on the next \$25 million of assets under management
0.550% on the next \$100 million of assets under management
0.500% on assets in excess of \$200 million

Account Minimum: \$25 million

US Core Portfolio

0.55% on the first \$25 million of assets under management
0.50% on the next \$25 million of assets under management
0.45% on the next \$50 million of assets under management
0.40% on balance
Over \$200 million negotiable

Account Minimum: \$25 million

Global Core Portfolio

0.65% on the first \$25 million of assets under management
0.60% on the next \$25 million of assets under management
0.55% on the next \$50 million of assets under management
0.50% on balance
Over \$200 million negotiable

Account Minimum: \$25 million

Global Concentrated Portfolio

0.70% on the first \$25 million of assets under management
0.65% on the next \$25 million of assets under management
0.60% on the next \$50 million of assets under management
0.55% on balance
Over \$200 million negotiable

Account Minimum: \$25 million

Applied Enhanced Index Russell 1000

0.30% on the first \$25 million of assets under management
0.28% on the next \$25 million of assets under management
0.25% on the next \$50 million of assets under management
0.20% on balance
Over \$200 million negotiable

Account Minimum: \$25 million

Money Market Separate Account Strategy¹

Account Minimum: \$150 million

0.13% for total asset size \$150 million - \$299 million of assets under management

0.11% for total asset size \$300 million - \$499 million of assets under management

0.09% for total asset size of \$500 million - \$799 million of assets under management

0.08% thereafter

¹ For balances falling below \$150 million of assets under management fees will be 0.16% of the total asset size.