

**Form ADV Brochure**

**Part 2A**

**MORGAN STANLEY INVESTMENT MANAGEMENT INC.**

**522 FIFTH AVENUE  
NEW YORK, NEW YORK 10036**

**[WWW.MORGANSTANLEY.COM/IM](http://WWW.MORGANSTANLEY.COM/IM)**

**MARCH 30, 2012**

This brochure provides information about the qualifications and business practices of Morgan Stanley Investment Management Inc. If you have any questions about the contents of this Brochure, please contact us at (212) 296-7045. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Morgan Stanley Investment Management Inc. is a registered investment adviser. Registration of an investment adviser does not imply any level or 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 the adviser is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## **ITEM 2            MATERIAL CHANGES**

The following is a summary of the material changes that have been made in the Brochure:

On November 16, 2011, Morgan Stanley Investment Management Inc. (“MSIM”) entered into a settlement with the U.S. Securities and Exchange Commission (“SEC”) in which the SEC found, from 1996 until the end of 2007, that MSIM represented to The Malaysia Fund, Inc. investors and board of directors that the Fund's Malaysian unaffiliated sub-adviser was providing certain services that the sub-adviser in fact was not providing. Without admitting or denying the findings, MSIM consented to the entry of an administrative cease and desist order, was censured, was ordered to reimburse the Fund and was ordered to pay a civil penalty to the U.S. Treasury. MSIM also agreed to implement and maintain policies and procedures governing the contract renewal process, the oversight of certain service providers, including sub-advisors, and the verification of disclosures regarding those service providers. Further details are outlined in Item 9.

### ITEM 3      TABLE OF CONTENTS

ITEM 1 – COVER PAGE .....	i
ITEM 2 – MATERIAL CHANGES .....	ii
ITEM 3 – TABLE OF CONTENTS .....	iii
ITEM 4 – ADVISORY BUSINESS .....	1
ITEM 5 - FEES AND COMPENSATION .....	3
ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT.....	10
ITEM 7 – TYPES OF CLIENTS .....	10
ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	10
ITEM 9 – DISCIPLINARY INFORMATION.....	25
ITEM 10- OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	26
ITEM 11 – CODE OF ETHICS .....	31
ITEM 12 – BROKERAGE PRACTICES .....	37
ITEM 13 – REVIEW OF ACCOUNTS .....	41
ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION.....	41
ITEM 15 – CUSTODY .....	41
ITEM 16 – INVESTMENT DISCRETION .....	42
ITEM 17 – VOTING CLIENT SECURITIES .....	42
ITEM 18 – FINANCIAL INFORMATION .....	43

## **ITEM 4           ADVISORY BUSINESS**

Morgan Stanley Investment Management Inc. the investment management division of Morgan Stanley, a publicly held company, was formed in 1975, made a wholly owned subsidiary of Morgan Stanley Group Inc. in 1980, and registered with the Securities and Exchange Commission ("SEC") under the Investment Advisers Act of 1940 (the "Advisers Act") in 1981.

We are a client centric organization dedicated to providing investment and risk-management solutions to investors worldwide. Our global presence, thought-leadership, and breadth of products and services enable us to partner with clients to design solutions that are both flexible and tailored to meet the ever-evolving challenges of today's financial markets.

With over three 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. Each of our investment teams have a unique talent pool of experienced investment professionals backed by the broad reach, access and resources of Morgan Stanley.

We provide advisory services to pooled investment vehicles and separate accounts on a discretionary and non-discretionary basis.

### **Asset Allocation**

We provide asset allocation advice for fees that are negotiated and vary depending on your particular circumstances. In connection with this service, we advise clients on a discretionary and non-discretionary basis as to the appropriate allocation of assets among various separate accounts and/or investment companies and other pooled vehicles advised by us, including but not limited to Morgan Stanley Institutional Fund, Inc. and Morgan Stanley Institutional Fund Trust, each an open-end investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). Our asset allocation fee is in addition to fees we and our affiliates receive as adviser and administrator to such investment companies. Because of the varying fee levels of our advisory services to the investment companies we recommend, we may be deemed to have a conflict of interest in rendering asset allocation advice.

We serve as investment adviser and administrator to Morgan Stanley Institutional Fund, Inc. and Morgan Stanley Institutional Fund Trust. Morgan Stanley Institutional Fund Trust is a series investment company consisting of 8 separate portfolios which are managed according to the investment objectives and guidelines set forth in the Morgan Stanley Institutional Fund Trust prospectuses. Morgan Stanley Institutional Fund, Inc. is a series investment company consisting of 23 separate portfolios which are managed according to the investment objectives and policies set forth in the Morgan Stanley Institutional Fund, Inc. prospectuses.

Morgan Stanley Institutional Fund Trust and Morgan Stanley Institutional Fund, Inc. (together, the "MSI Funds") pay us an investment advisory fee based on a percentage of each portfolio's average daily net assets. Other than in our asset allocation or similar accounts, we generally do not charge advisory fees on separately managed client assets that are invested in the MSI Funds in addition to the advisory fees that we charge to such 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 MSI Funds as a result of the client's investment in the MSI 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 portfolio, which may be higher than the fee generally payable under your investment management contract.

### **Alternative Investment Partners**

Our fund of funds advisory services consist of identifying investment opportunities and making investments in diversified portfolios of non-traditional investment strategies called "alternative investments". The core of our fund of funds 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 are selected opportunistically and managed dynamically from the complete range of liquid and private market strategies appropriate for each account.

Fund of Hedge Funds: Our fund of hedge funds investment process consists of investing in (i) funds managed by investment managers who employ a traditional investment style; (ii) funds managed by investment managers in a non-traditional investment style; and (iii) secondary market purchases of hedge funds. The underlying funds in which our accounts invest are referred to herein as ("Investment Funds"). Liquid market investment strategies. Liquid market 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 Investment Managers the flexibility to use leverage or short-sale positions to take advantage of perceived inefficiencies across capital markets and are referred to as "alternative investment strategies". "Traditional" investment companies are characterized generally by long-only investments and limits on the use of leverage. Investment Funds following alternative investment strategies (whether hedged or not) are often described as "hedge funds". We may also seek to gain investment exposure, on behalf of an account, to certain Investment Funds or to adjust market or risk exposure by, among other things, entering into derivative transactions such as total return swaps, options and futures. Our fund of hedge funds accounts may also make co-investments as part of its 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).

Private Equity Fund of Funds: For our private equity funds of funds strategies, we implement our investment advice through three primary investment approaches: (a) primary commitments to Investment Funds; (b) co-investments, primarily alongside our existing primary Investment Fund managers; and (c) secondary market purchases of existing private equity Investment Funds. Our private equity fund of funds strategies may, in some cases, make investments in other than 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").

Our private equity fund of funds investment process generally consists of making primary commitments to and investing in private equity funds managed by Investment Managers who employ a variety of non-

traditional private markets investment strategies. Private market strategies include buyouts, growth capital, venture capital, distressed companies, special situations, mezzanine, opportunistic real estate, partnership interests purchased and sold on the secondary markets, emerging markets and other categories. A private equity fund of funds account may also make co-investments as part of its investment strategy and Other Investments.

Private Equity Real Estate Fund of Funds: For our private equity real estate fund of funds strategy, we generally implement investment advice through: (i) primary commitments to Investment Funds; (ii) co-investments; (iii) secondary market purchases of existing private equity real estate Investment Funds; and (iv) investments in managers transitioning to real estate fund management from real estate management, ownership and/or development as part of their investment strategy (“manager incubation investments or “MI””).

The private equity real estate fund of funds investment team focuses primarily on small and mid-size funds which, in our opinion, have a sustainable strategy for generating superior risk-adjusted returns across real estate market cycles, demonstrate a differentiated skill set, emphasize strong real estate fundamentals in pursuing their strategies and have a demonstrated in-depth knowledge of their local markets. We will seek to invest with managers that have: (i) strong management teams that we like, trust and admire; (ii) a clear alignment of interests with their investors and employ best practices in fund governance; (iii) access to a proprietary pipeline of investment opportunities (providing us with access to scarce or difficult-to-find real estate opportunities); (iv) a demonstrated ability to execute on a disciplined and repeatable investment strategy; (v) an established track record and experience; (vi) a thorough investment process with robust infrastructure; and (vii) transparent reporting.

### **Miscellaneous Services**

We may also act as a fiduciary advisor, 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 advisor, we will report to the fiduciary or other person responsible for the overall management of the large pool of assets.

As of December 31, 2011 we managed \$174,798,860,802 on a discretionary basis and \$2,441,107,403 on a non-discretionary basis totaling **\$177,239,968,205** billion under management.

## **ITEM 5 FEES AND COMPENSATION**

### **Management Fees**

Our fees may vary from the applicable schedules below due to the particular circumstances of the client or as otherwise negotiated with particular clients. 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. We may also negotiate per-transaction fees with clients which are expressed as a percentage of the value of each account transaction. Holdings in a client's account may include real estate investment trusts (“REITS”), investment companies (including exchange traded fund 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 below are only the advisory fees charged by us and do not reflect custodial or other fees that may be applicable to your account.

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

### **Fee Schedules**

#### **Intermediate Duration**

Account Minimum: \$50 million

.500% on the first \$25 million of assets under management  
 .250% on the next \$50 million of assets under management  
 .150% on the next \$775 million of assets under management  
 .125% on assets in excess of \$850 million

#### **Core Plus Fixed Income(1)**

Account Minimum: \$50 million

.375% on the first \$50 million of assets under management  
 .250% on the next \$25 million of assets under management  
 .150% on the next \$775 million of assets under management  
 .125% on the next \$150 million of assets under management  
 .100% on assets in excess of \$1 billion

(1) includes Investment Grade Fixed Income, US Core Fixed Income, US Core Plus Fixed Income, US High Grade Fixed Income and High Grade Fixed Income

#### **Short and Limited Duration <\$150 Million**

Account Minimum: \$50 million

0.150% on the first 75 million  
 0.100% on assets in excess of 75 million

#### **Short and Limited Duration >\$150 million**

Account Minimum: \$150 million

0.100% on the first 150 million  
 0.075% on the next 350 million  
 0.060% on the next 500 million  
 0.050% on assets in excess of 1 billion

#### **Long Duration**

Account Minimum: \$50 million

0.375% on the first \$50 million of assets under management  
 0.25% on the next \$25 million of assets under management  
 0.15% on the next \$775 million of assets under management  
 0.125% on the next \$150 million of assets under management  
 0.10% on assets in excess of \$1 billion

Enhanced Mortgage Index .50% on the first \$25 million of assets under management .25% on the next \$50 million of assets under management .15% on the next \$775 million of assets under management .125% on assets in excess of \$850 million	Account Minimum: \$100 million
Mortgage Backed Securities 0.500% on the first \$25 million of assets under management 0.250% on the next \$50 million of assets under management 0.150% on the next \$775 million of asset under management 0.125% on assets in excess of \$850 million	Account Minimum: \$50 million
US High Yield 0.400% on the first of \$50 million of assets under management 0.350% on the next of \$50 million of assets under management 0.300% on assets in excess of \$100 million	Account Minimum: \$50 million
Emerging Markets 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
Emerging Markets Domestic Debt 0.65% on the first \$50 million of assets under management 0.60% on the next \$50 million of assets under management 0.55% on assets in excess of \$100 million	Account Minimum: \$50 million
Global Aggregate Fixed Income .375% on the first \$50 million of assets under management .25% on the next \$50 million of assets under management .15% on assets in excess of \$100 million	Account Minimum: \$50 million
European Strategic Bonds .30% on the first €50 million of assets under management .20% on the next €50 million of assets under management .15% on assets in excess of €100 million	Account Minimum: €50 million
European Total Return 0.35% on the first €50 million of assets under management 0.25% on the next €50 million of assets under management 0.20% on assets in excess of €100 million	Account Minimum: €50 million
UK Corporate Bonds .35% on the first £30 million of assets under management .25% on the next £30 million of assets under management .20% on assets in excess of £60 million	Account Minimum: £50 million



Euro High Yield

.45% on the first €50 million of assets under management  
.35% on the next €50 million of assets under management  
.25% on assets in excess of €100 million

Account Minimum: €50 million

Euro Short Maturity

.20% 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

Euro Aggregate

.25% on the first €50 million of assets under management  
.15% on the next €50 million of assets under management  
.125% on assets in excess of €100 million

Account Minimum: €50 million

Global Government

.30% on the first \$50 million of assets under management  
.20% on the next \$50 million of assets under management  
.150% on assets in excess of \$100 million

Account Minimum: \$50 million

Global Corporate

.45% on the first \$50 million of assets under management  
.30% on the next \$50 million of assets under management  
.200% on assets in excess of \$100 million

Account Minimum: \$50 million

Global Limited Duration

.25% on the first \$50 million of assets under management  
.15% on the next \$50 million of assets under management  
.100% on assets in excess of \$100 million

Account Minimum: \$50 million

Integrated International Equity

1.00% on the first \$25 million of assets under management  
.80% on the next \$25 million of assets under management  
.70% on the next \$25 million of assets under management  
.60% on the next \$25 million of assets under management  
.55% on the next \$100 million of assets under management  
.50% on assets in excess of \$200 million

Account Minimum: \$25 million

Global Balance Conservative

.45% on the first €25 million of assets under management  
.40% on the next €25 million of assets under management  
.30% on the next €25 million of assets under management  
.25% on assets in excess of €75 million

Account Minimum: €25 million

Global Balance Moderate

.50% on the first €25 million of assets under management  
.45% on the next €25 million of assets under management  
.35% on the next €25 million of assets under management  
.30% on assets in excess of €75 million

Account Minimum: €25 million

Global Balance Aggressive

.55% on the first €25 million of assets under management  
.50% on the next €25 million of assets under management  
.40% on the next €25 million of assets under management  
.35% on assets in excess of €75 million

Account Minimum: €25 million

Global Convertibles

0.60% on the first €50 million of assets under management  
0.50% on the next €50 million of assets under management  
0.40% on assets in excess of €100 million

Account Minimum: €50 million

Global High Yield

0.50% on the first \$50 million of assets under management  
0.40% on the next \$50 million of assets under management  
0.30% on assets in excess of \$100 million

Account Minimum: \$50 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

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: \$25 million

Growth

.750% on the first \$50 million of assets under management  
.500% on the next \$25 million of assets under management  
.400% on the next \$25 million of assets under management  
Negotiable thereafter

Account Minimum: \$25 million

Focus Growth

.750% on the first \$50 million of assets under management  
.500% on the next \$25 million of assets under management  
.400% on the next \$25 million of assets under management  
Negotiable thereafter

Account Minimum: \$25 million

Mid Cap Growth

.800% on the first \$25 million of assets under management  
.700% on the next \$25 million of assets under management  
.650% on the next \$50 million  
.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  
.90% on the next \$25 million of assets under management  
.850% on assets in excess of \$50 million

Currently Closed to New Investors

#### Multi Cap Growth

Asset Based Fee: 1% 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

#### International Value Equity

.800% on the first \$25 million of assets under management  
.600% on the next \$25 million of assets under management  
.500% on the next \$25 million of assets under management  
.400% on assets in excess of \$75 million

Account Minimum: \$100 million

#### Global Franchise

.80% on the first \$25 million in assets under management  
.75% on the next \$25 million in assets under management  
.70% on the next \$50 million in assets under management  
.65% on assets in excess of \$100 million

Account Minimum: \$50 million

#### International Small Cap

.1.00% on the first \$25 million of assets under management  
.850% on the next \$25 million of assets under management  
.70% on assets in excess of \$50 million

Account Minimum: \$25 million

#### Asian Equity

.80% on the first \$50 million in assets under management  
.70% in excess of \$50 million in assets under management

Account Minimum: \$50 million

#### European Equity Alpha

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

#### Eurozone Equity Alpha

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

#### Europe (ex UK) Equity Alpha

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

Account Minimum : \$25 million

#### Active International Allocation

.65% on the first \$75 million in assets under management  
.60% on the next \$75 million in assets under management  
.55% on assets in excess of \$150 million

Account Minimum: \$100 million

Global Real Estate (2)

Account Minimum: \$100 million

1.00% on the first \$20 million in assets under management  
.800% on the next \$10 million in assets under management  
.750% on the next \$20 million in assets under management  
.650% on the next \$50 million in assets under management  
.500% on assets in excess of \$100 million

(2) Includes Europe, Asia International Real Estate, and US Real Estate products

Global Macro-Long/Short Strategy

Annual Fees Comprised of Base and Performance Fee

1.500% on total assets  
20% of outperformance

Global Tactical Asset Allocation

Account Minimum: \$100 million

.50% on the first \$250 million of assets under management  
.450% on the next \$250 million of assets under management  
.400% on assets in excess of \$500 million

For advisory services rendered to funds pursuing a fund of hedge funds investment strategy, we are entitled to a fee in an amount ranging (on an annualized basis) from 0.55% to 1.50% of the net asset value of the applicable fund. Information relating to the actual fee charged by a fund and the frequency of the payment to us is provided in the offering materials for such fund.

For advisory services rendered to certain of the funds pursuing a private equity fund of funds investment strategy, prior to the fifth anniversary of the first due date of the capital contribution of the applicable funds or prior to the termination of the investment period of the applicable funds, we are entitled to a fee ranging (on an annualized basis) from 0.90% to 1.50% of a private equity fund of funds limited partner's capital commitment. For certain funds, from and after such date, the fee is based on each limited partner's aggregate contributions respecting Investment funds plus such limited partner's attributable share of the aggregate unfunded capital commitments made by the applicable Fund to Investment Funds, as of each date of calculation of the management fee, less the amount distributed to such limited partner by the fund as a return of capital used to fund the acquisition costs of each investment. Information relating to the actual fee charged by a fund and the frequency of the payment to us is provided in the offering materials for such fund.

For advisory services rendered to the funds pursuing a private equity real estate fund of funds investment strategy and for certain of the funds pursuing a private equity fund of funds investment strategy, we are entitled to a fee that ranges (on an annualized basis) from 0.90% to 1.50% (depending on the limited partner's capital commitment). This fee schedule is applicable for the period prior to the fifth anniversary of the due date of the fund's first capital call. Thereafter, the management fee will equal the Management Fee Percentage (as defined below) of each limited partner's capital commitment. The "Management Fee Percentage" means a percentage equal to 75% of the percentage used to calculate the management fee for the preceding year. Information relating to the fees charged by a fund and the frequency of the payment to us is provided in the offering materials for such fund.

Portable Alpha:

The fees we charge for the portable alpha strategy vary based on circumstances or as otherwise negotiated.

Emerging Manager Program:

We receive an annual management fee equal to (i) 1.75% for capital commitments less than \$100 million and (ii) 1.50% for capital commitments equal to or greater than \$100 million.

Fiduciary Management or Manager of Managers Service:

Fees for these services are negotiable depending upon the size of the assets and the work involved.

## **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, pension plans and certain high net worth individuals), there may be an incentive to favor one client over another resulting in conflicts of interest. For instance, we may receive fees from certain accounts that are higher than the fee we receive from another account, or we may receive a performance-based fee on certain accounts. In those instances, the portfolio managers may have an incentive to favor the higher and/or performance-based fee accounts over another account. In addition, a conflict could exist to the extent we have proprietary investments in certain accounts, where portfolio managers have personal investments in certain accounts or when certain accounts are investment options in our employee benefits and/or deferred compensation plans. The portfolio manager may have an incentive to favor these accounts over others. If we manage accounts that engage in short sales of securities of the type in which the account invests, we could be seen as harming the performance of the account for the benefit of the accounts engaging in short sales if the short sales cause the market value of the securities to fall. We have adopted trade allocation and other policies and procedures that we believe are reasonably designed to address these and other conflicts of interest.

## **ITEM 7            TYPES OF CLIENTS**

We provide advice to corporate pension and profit-sharing plans, state, local and foreign government entities and pension plans (including foreign pension funds), supra-national organizations, sovereign wealth funds, educational institutions, foundations, cultural institutions, high net worth individuals registered mutual funds, unregistered funds and foreign regulated funds such as SICAVs and SIFs.

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

Investing in securities involves risk of loss that you should be prepared to bear.

**We engage in the following significant Equity investment strategies:**

### **Global Emerging Markets**

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.

### **Growth**

The **Growth Strategy** seeks long term capital appreciation. To help 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 **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 help 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 US, international and global basis.

The **Opportunity Strategy** seeks long-term capital appreciation by investing in high-quality, established and emerging companies characterized by sustainable competitive advantages and strong normalized free-cash flow yield that the team believes are undervalued at the time of investment. To help 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 US, international and global basis.

### **European Equity**

The **European Equity Strategy** seeks to generate long-term capital appreciation by investing in high quality companies with sustainable competitive advantages, strong cash-flow generation, and high returns on investment. To help achieve this objective, the fund employs disciplined, fundamental analysis to identify those companies that trade at a discount to their long-term intrinsic value. The strategy exists on a regional and UK country specific basis.

### **EAFE**

The **International Equity Strategy** seeks long-term capital appreciation by investing primarily in a variety of non-U.S. stocks. To help achieve its objective, the strategy incorporates disciplined, fundamental analysis in an effort to identify quality companies—mainly in Europe, Australasia and the Far East—that trade at a discount to their long-term intrinsic value.

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 invested capital and strong free cash flow generation. To help achieve this objective, the strategy

employs a “buy-and-hold” approach to construct a concentrated portfolio, with stock selection informed by rigorous fundamental analysis.

### **Real Estate**

The **Global Real Estate Securities Strategy** seeks attractive long-term, risk-adjusted returns by investing in publicly traded real estate securities, primarily in developed countries worldwide. To help achieve its objective, the strategy combines bottom-up and top-down analyses. This strategy exists on a global, international and regional basis (i.e., U.S., European, Asian).

### **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. Baskets of stocks, designed to track the returns for the MSCI index for each country or sector, are purchased. This strategy exists on a global and international basis.

### **International Small Cap**

The **International Small Cap Strategy** seeks long-term capital appreciation by investing in a variety of non-U.S. small-cap stocks with a market capitalization of less than \$5 billion. To help achieve its objective, the strategy employs a bottom-up approach to identify undervalued, quality business franchises that trade at a substantial discount to their long-term fair value. This strategy exists on an international and regional European basis.

### **Global Tactical Asset Allocation**

The **Global Tactical Asset Allocation Strategy** is a top-down global macro portfolio that seeks to identify and exploit inefficiencies between markets, regions and sectors to deliver returns in excess of a customized financial benchmark. The team seeks to capture these mispricings utilizing a combination of quantitative techniques and fundamental analysis across global asset classes including stocks, bonds, currencies and commodities.

### **Equity investment strategies are subject to the following risk considerations:**

**Equity Securities.** 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 a portfolio 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.

**Foreign and Emerging Market Securities.** 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, a portfolio's investments 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 a portfolio's investments.

**Derivatives Risk.** 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, indices or interest rates to which they relate and risks that the transactions may not be liquid. Certain derivative transactions may give rise to a form of leverage. Leverage magnifies the potential for gain and the risk of loss.

**Small Capitalization Companies.** 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.

**Privately Placed and Restricted Securities.** The Portfolio's investments may also include privately placed securities, which are subject to resale restrictions. These securities will have the effect of increasing the level of Portfolio illiquidity to the extent the Portfolio 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 Portfolio to sell certain securities.

**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 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 Portfolio and its shareholders will, in effect, be absorbing duplicate levels of fees.

**REITs, Real Estate Operating Companies ("REOCs") and Foreign Real Estate Companies.** 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.

**Fixed-Income Securities.** All fixed-income securities are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. When the general level of interest rates goes up, the prices of most fixed-income securities go down. When the general level of interest rates goes down, the prices of most fixed-income securities go up. Because the Fund 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 Fund's portfolio securities to fall substantially. In addition, a portion of the Fund's securities may be rated below investment grade, commonly known as "junk bonds," and may have speculative risk characteristics.



**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 Fund. The risk of such defaults is generally higher in the case of mortgage pools that include subprime mortgages.

**Collateralized Mortgage Obligations (“CMOs”).** 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, a portfolio could sustain a loss.

**We engage in the following significant Fixed Income investment strategies:**

**Global Fixed Income (includes US and non-US)**

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

**Marco analysis:** The process begins with a top-down value assessment of the bond universe, including a consideration of macroeconomic conditions, the corporate earnings environment and relative valuations. The team examines swap spreads as a proxy for the liquidity premium embedded within corporate spreads, and assesses factors such as leverage and asset volatility (which drive both equity volatility and default spreads) as an indicator of future default expectations.

**Screening:** The team applies a unique combination of quantitative and qualitative filters to identify bond issuers that meet its investment criteria in terms of competitive position, franchise value and management quality. The team uses a proprietary quantitative model, Distance-to-Default, to calculate how far an issuer is from theoretical default. Plotting this metric against a bond’s yield spread allows the team to identify bonds offering potential attractive rewards relative to their associated risk.

**Credit analysis:** The team focuses on financial risk, business risk and management ability/intentions. When analyzing business risk, the team assesses an issuer’s competitive position, its diversification and growth potential, the value of its franchise and the flexibility of its business model in terms of the variability of its cost structure. Financial risk involves an examination of an issuer’s financial statements to assess the suitability of the issuer’s capital structure for the risk entailed in the issuer’s business. The team’s forward-looking proprietary cash flow models enable them to understand the likely future financial profile. The group also seeks to understand management’s intentions, in terms of business development and capital structure, and ability to execute.

**Valuation analysis:** The team then conducts a relative valuation assessment on potential investment candidates. Using default data and average risk premia, the team derives a fair value spread for each bond that is compared to the market spread to determine a bond’s under/overvaluation.

The Global Fixed Income Team also incorporates Country and Currency Analysis for non-US portfolios.

**Portfolio construction:** A portfolio based on specific client guidelines is constructed, with sector allocation driven primarily from bottom-up security selection (subject to the team’s risk management guidelines). Integral to the team’s portfolio construction process is the measurement and monitoring of

market risk, duration and volatility, and credit risk through the use of proprietary risk measures and proprietary models. The team actively manages spread duration with a target range of +/- two years versus the benchmark, with portfolio duration targeted at +/- one year around the benchmark.

### **Emerging Markets Debt**

**The Emerging Markets Debt Strategy** follows a top-down assessment of the global environment that provides us with an initial outlook for the Emerging Markets Domestic Debt asset class. All investment recommendations undergo peer review, and final decisions with respect to portfolio construction and market-risk exposures are made as a team.

**Marco 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 40 or more emerging market countries. The team analyzes the global economic environment to assess whether global conditions are generally benign to emerging economies.

**Country identification and allocation:** The team's objective is to identify countries that exhibit signs of positive fundamental change using frameworks that meld economic, political and social assessments. In analyzing economic factors, distinctions are made 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' abilities to formulate and implement policies and on the economies responsiveness to them. It also emphasizes sociopolitical factors including political risks, leadership, election calendars, regime changes and social stability.

**Currency analysis:** Among the countries selected, the team reviews a variety of indicators to evaluate potential opportunities in foreign-exchange markets of the countries in the investable universe. The team's Fundamental Real Exchange Rate model is based on general equilibrium macroeconomic models for open economies, which suggest that the real exchange rate is related to a few relevant fundamental variables including the terms of trade, productivity differentials and the stock of net foreign assets. By analyzing real and nominal exchange rates, the team determines whether a real exchange rate is undervalued, overvalued or fairly valued relative to what fundamentals warrant, and weighs domestic, external and other factors likely to drive nominal exchange rates in the immediate future.

**Yield curve analysis:** The team also seeks to add value by actively managing the exposure to the domestic yield curves of the countries in its investable universe. Its proprietary Domestic Yield Curve Valuation Model takes into consideration the impact of economic fundamentals of the short-term policy rate as an initial building block, and complements such estimation with a careful modeling of risk premium and a non-arbitrage condition to build a Fair Value Domestic Yield Curve.

**Security selection:** The team screens a universe of sovereign, quasi-sovereign and corporate bonds in each country for the most attractive opportunities according to their risk/return profiles.

### **Liquidity**

#### **US Taxable**

**The US Taxable Strategy** seeks to maintain a stable net asset value of \$1.00 per share by investing in liquid, high quality U.S. dollar-denominated money market instruments of U.S. and foreign financial and nonfinancial corporations. The strategy also invests in obligations of foreign governments and in obligations issued or guaranteed by the U.S. government and its agencies and instrumentalities, including securities guaranteed under the Federal Deposit Insurance Corporation ("FDIC") Temporary Liquidity

Guarantee Program. The 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 of 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, short term taxable municipal obligations, variable rate master demand notes (including tax-exempt variable rate demand notes), asset-backed securities and repurchase agreements. No individual security will have a remaining maturity in excess of 397 days, (except for adjustable rate government securities with maturities in excess of 397 days.) The strategy may also include U.S. dollar-denominated foreign securities and money market instruments.

## **US Tax-Exempt**

**The US Tax Exempt Strategy** seeks to maintain a stable net asset value of \$1.00 per share by investing at least 80% of its assets in high quality short-term municipal obligations, the interest of which is exempt from federal income taxes and is not subject to the federal alternative minimum tax. The strategy may also invest in variable and floating rate demand instruments, tender option bonds, custodial receipts and investments in other investment companies, including money market funds. The strategy may include up to 20% of its assets in taxable money market securities or in municipal obligations that pay interest income that may be subject to the alternative minimum tax; however, it is currently intended that a portfolio will be managed so that income generated by the portfolio will not be subject to the alternative minimum tax. In addition, the strategy may temporarily include more than 20% of its assets in taxable money market securities for defensive purposes in attempting to respond to adverse market conditions. No individual security will have a remaining maturity in excess of 397 days.

### **The Fixed Income investment strategies are subject to the following risk considerations:**

**Fixed Income Securities.** 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.

**Municipal Securities.** 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 Portfolio to reinvest the proceeds at a lower rate of interest.

**Mortgage Securities.** Investments in mortgage securities are subject to the risk that if interest rates decline, borrowers may pay off their mortgages sooner than expected which may adversely affect a portfolio's return. Investments in TBAs may give rise to a form of leverage and may cause a portfolio's turnover rate to appear higher. Leverage may cause a portfolio to be more volatile than if a portfolio had not been leveraged.

**Asset-Backed Securities.** 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.

**High Yield Securities.** A portfolio'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.

**Lower Rated Fixed Income Securities ("Junk Bonds").** 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.

**Foreign and Emerging Market Securities.** 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, a portfolio's investments 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 a portfolio's investments.

**Derivatives Risk.** 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, indices or interest rates to which they relate and risks that the transactions may not be liquid. Certain derivative transactions may give rise to a form of leverage. Leverage magnifies the potential for gain and the risk of loss.

**Short Sales.** In a short sale transaction, a portfolio sells a borrowed security in anticipation of a decline in the market value of that security. If the adviser incorrectly predicts that the price of a borrowed security will decline, a portfolio 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.

**Credit 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. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates.

**Bank Obligations.** The activities of U.S. 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 may be particularly susceptible to certain economic factors.

**U.S. Government Securities.** 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.

**Repurchase Agreements.** 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 a portfolio's right to control the collateral.

**Foreign Money Market Securities.** 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.

**We engage in the following fund of funds investment strategies:**

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 Investment Funds in which we cause an account to invest. Our personnel use a wide range of resources to identify attractive 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 Investment Managers who employ a variety of non-traditional liquid market investment strategies; (ii) certain investment funds managed in a traditional style and (iii) secondary market purchases of hedge funds. Liquid market 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 Investment Managers the flexibility to use leverage or short-sale positions to take advantage of perceived inefficiencies across capital markets and are referred to as "alternative investment strategies". "Traditional" investment companies are characterized generally by long-only investments and limits on the use of leverage. Investment Funds following alternative investment strategies (whether hedged or not) are often described as "hedge funds". We may also seek to gain investment exposure, on behalf of an account, to certain Investment Funds or to adjust market or risk exposure by, among other things, entering into derivative transactions such as total return swaps, options and futures. Our fund of hedge funds accounts may also make co-investments as part of its investment strategy.

**Private Equity Fund of Funds:** For our private equity funds of funds strategies, we implement our investment advice through three primary investment approaches: (a) primary commitments to Investment Funds; (b) co-investments, primarily alongside our existing primary Investment Fund managers; and (c) secondary market purchases of existing private equity Investment Funds. Our private equity fund of funds strategies may, in some cases, make investments in other than 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").

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

Private Equity Real Estate Fund of Funds: For our private equity real estate fund of funds strategy, we generally implement investment advice through: (i) primary commitments to Investment Funds; (ii) co-investments; (iii) secondary market purchases of existing private equity real estate Investment Funds; and (iv) investments in managers transitioning to real estate fund management from real estate management, ownership and/or development as part of their investment strategy (“manager incubation investments or “MI”).

The private equity real estate fund of funds investment team focuses primarily on small and mid-size funds, which in our opinion, have a sustainable strategy for generating superior risk-adjusted returns across real estate market cycles, demonstrate a differentiated skill set, emphasize strong real estate fundamentals in pursuing their strategies and have a demonstrated in-depth knowledge of their local markets. We will seek to invest with managers that have: (i) strong management teams that we like, trust and admire; (ii) a clear alignment of interests with their investors and employ best practices in fund governance; (iii) access to a proprietary pipeline of investment opportunities (providing us with access to scarce or difficult-to-find real estate opportunities); (iv) a demonstrated ability to execute on a disciplined and repeatable investment strategy; (v) an established track record and experience; (vi) a thorough investment process with robust infrastructure; and (vii) transparent reporting.

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 the accounts will be successful or that you will not suffer losses. Investing in securities involves risk of loss that you should be prepared to bear.

**The fund of funds investment strategies are subject to the following risk considerations:**

*Inadequate Return.* No assurance can be given that the returns on an Investment Fund will be commensurate with the risk of your investment. You should not commit money to 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.

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

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

*Absence of Regulatory Oversight.* Certain of the funds and the Investment Funds are not registered as investment companies under the 1940 Act. Certain of our funds, as investors in these Investment Funds, do not have the benefit of the protections afforded by the 1940 Act to investors in registered investment companies. In addition, the investment managers of the Investment Funds often are not registered as investment advisers under the Advisers Act. Although we periodically receive information from each



Investment Fund regarding its investment performance and investment strategy, we may have little or no means of independently verifying this information. An Investment Fund may use proprietary investment strategies that are not fully disclosed to us, which may involve risks under some market conditions that are not anticipated by us. Investment Managers may change their investment strategies (i.e., may experience style drift) at any time. In addition, we have no direct control over any Investment Funds' investment management, brokerage, custodial arrangements or operations and must rely on the experience and competency of the Investment Manager in these areas. The performance of our funds depends on our success in selecting Investment Funds for investment by the Funds and the allocation and reallocation of assets among those Investment Funds.

The Investment Funds typically do not maintain their securities and other assets in the custody of a bank or a member of a securities exchange, as generally required of registered investment companies. It is anticipated that the Investment Funds 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 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 Investment Funds are made by the 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 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.

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.

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

*Long-Term Investments; No Current Return.* The return of capital in cash or other property, the realization of gains in cash or other property (if any), and actual distribution thereof to any account generally will occur only upon collection of distributions from the underlying Investment Funds in which the accounts invest. In the case of such Investment Funds, timing of distributions will be completely out

of our control. The ability of an account to return capital will depend in part upon the withdrawal rights provided by the corresponding Investment Funds in which the account is invested. Investment Funds may only permit withdrawals on an annual or less frequent basis and may have the ability to suspend withdrawals. Additionally, an Investment Fund may make distributions in-kind. An account may be unable to withdraw cash from its corresponding Investment Funds whenever it desires.

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

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

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

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

The Investment Funds in which accounts invest are subject to the following principle risks, among others:

### **Fund of Hedge Funds Generally:**

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



amended, or that may be sold only in a privately negotiated transaction or pursuant to an exemption from registration.

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

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

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

*Use of Derivatives:* Certain accounts, and some or all their respective Investment Funds, may invest in, or enter into, derivative or derivative transactions ("Derivatives"). Derivatives are financial instruments that derive their performance, at least in part, from the performance of any underlying asset, index or interest rate. Derivatives entered into by an Investment Fund can be volatile and involve various types and degrees of risk, depending upon the characteristics of a particular Derivative and the portfolio of the account or Investment Fund. If an account or an Investment Fund invests in Derivatives at an inopportune time or incorrectly judges market conditions, the investments may lower the return of the account or Investment Fund or result in a loss. An account or an Investment Fund also could experience losses if Derivatives are poorly correlated with its other investments, or if the account or Investment Fund is unable to liquidate the position because of an illiquid secondary market.

*Highly Volatile Markets:* The prices of commodities contracts and all Derivatives, including futures and options, can be highly volatile. Investment Funds are subject to the risk that trading activity in securities in which the Investment Funds invest may be dramatically reduced or cease at any time, whether due to general market turmoil, problems experienced by a single issuer or a market sector or other factors. If

trading in particular securities or classes of securities is impaired, it may be difficult for an Investment Fund to properly value any of its assets represented by such securities.

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

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

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

#### **Private Equity Fund of Funds Generally:**

*Buy-Out Transactions:* Certain accounts may invest directly, or indirectly through 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.

*Control Positions:* Certain accounts may directly, or indirectly through 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 Investment Fund would likely suffer a loss, which may be complete, on its investment.

*Investing in Special Situations:* Certain accounts may invest directly, or indirectly through Investment Funds, in companies that are involved in (or are the target of) acquisition attempts or tender offers, or

companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving these types of transactions, there exists the risk that the transaction will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to certain of our private equity fund of funds. As a result, the accounts may suffer a loss, which may be complete, on its investment.

*Venture Capital Investments:* Certain accounts may directly, or indirectly through 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.

*Use of Hedging Instruments:* Certain accounts and 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. There is no restriction on our accounts' ability to engage in short-sale and derivative transactions, including, without limitation, forward contracts and option and swap transactions involving portfolio company securities (an entity in which the Investment Funds invest or in which the accounts directly invest) or other securities, whether or not in connection with a hedging strategy. 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"). 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 Investment Funds, the transactions themselves entail risks that are different from those of the investments of the accounts or 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 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 Investment Funds than if they had not used such Hedging Instruments.

#### **Private Equity Real Estate Fund of Funds Generally:**

*Real Estate Market Conditions:* Some of the 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 Investment Fund at prices that the investment manager of the Investment Fund considers more favorable. Further, the strategy of certain Investment Funds for its real estate investments may rely, in part, upon the continuation of existing market conditions (including, for example, supply and demand characteristics) or, in some circumstances, a recovery or improvement in market conditions over the projected holding period for the real estate investments. No assurance can be given that real estate investments can be acquired or disposed of at favorable prices or that the market for such investments will 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 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 Investment Funds may not be successful in identifying suitable real estate properties or other assets that meet their investment criteria or in consummating acquisitions or investments on satisfactory terms.

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

*Commercial/Business Risks:* It is anticipated that certain of our private equity real estate fund of funds will make investments in some 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 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 Investments:* The Investment Funds' ability to generate attractive investment returns for their investors may be adversely affected to the extent the Investment Funds are unable to obtain favorable financing terms for their real estate investments and may also affect certain of our accounts' and the Investment Funds' ability to exit the investment. Certain marketplace events may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the global economies. Certain economic downturns could adversely affect the financial resources of corporate borrowers in which the Investment Funds have invested, in addition to the resources of operating partners and investment projects in which the Investment Funds participate, and result in the inability of such borrowers, partners and projects to make principal and interest payments on outstanding debt when due. In the event of such defaults, the Investment Funds may suffer a partial or total loss of capital invested in such companies, which could, in turn, have an adverse effect on the Investment Funds' and of the accounts' returns. Such marketplace events also may restrict the ability of the Investment Funds to sell or liquidate real estate investments at favorable times or for favorable prices.

## **ITEM 9                      DISCIPLINARY INFORMATION**

On November 16, 2011, MSIM settled charges by the SEC relating to The Malaysia Fund, Inc. (the "Fund"), a closed-end management investment company launched and managed by MSIM. The settlement relates to the period from 1996 until the end of 2007, during which time the SEC found MSIM 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.

Without admitting or denying the findings, MSIM 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. MSIM was censured and was 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 MSIM had already reimbursed to the Fund. MSIM also was ordered to pay a civil money penalty in the amount of \$1,500,000 to the U.S. Treasury.

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

## **ITEM 10      OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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

### **Broker-Dealer Affiliates:**

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

We are also is affiliated with Morgan Stanley & Co. LLC ("MS&Co."), Morgan Stanley Smith Barney LLC, Morgan Stanley Market Products Inc., MS Securities Services Inc., Prime Dealer Services Corp., each a registered broker dealer under the 34 Act and FINRA. We also have affiliations with foreign broker-dealers and financial services companies, including Morgan Stanley & Co. International PLC, Morgan Stanley Securities Ltd., Morgan Stanley Japan Securities Co. Ltd., Morgan Stanley India Company Private Ltd., Morgan Stanley Asia Ltd., Morgan Stanley Canada Limited, Morgan Stanley Australia Securities Limited, Morgan Stanley Australia Limited, Bank Morgan Stanley AG, HC Securities and Investments, Morgan Stanley, S.V., S.A., Morgan Stanley Huaxin Securities Company Ltd., Block Interest Discovery System (BIDS), Better Alternative Trading System (BATS), RMB Morgan Stanley, HTI Valori Mobiliare S.A., TradeWeb LLC and OliveTree (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 below, we utilize Affiliated Broker-Dealers to effect portfolio securities, currency exchange, futures and other transactions for our managed accounts. Item 11 Participation or Interest in Client Transactions below 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.

MS&Co. and MSDI serve as distributor, placement agent and/or underwriter for certain registered and unregistered investment companies for which we act as investment adviser.

We also serves as investment manager of 76 open-end investment companies including all portfolios which are bought and sold through brokers, which may include MSSB or any other Affiliated Broker-Dealer.

As investment manager, Registrant is an affiliated person of each of these investment companies. Registrant's affiliate, MSDI, is the distributor of shares of the Morgan Stanley Retail Family of Funds and, as such, receives Rule 12b-1 distribution 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 may enter into a selected dealer agreement. In addition, any sales charges derived from the purchase or redemption of an investment company managed by the Registrant 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.

**Investment Adviser Affiliates:** We are affiliated with the following investment advisers:

Our advisory affiliates are Morgan Stanley Alternative Investment Partners LP ("MSAIP"), Morgan Stanley AIP GP LP ("MSAIP") and Private Investment Partners Inc. ("PIP"), each a registered investment adviser under the Advisers Act. MSAIP serves as general partner to certain of the investment companies for which MSAIP acts as investment adviser. MSAIP acts as investment adviser to registered and unregistered investment companies and separate accounts. PIP acts as investment adviser to unregistered investment companies.

Morgan Stanley Investment Management Limited ("MSIM Ltd"), Morgan Stanley Asset & Investment Trust Management Co., Limited, Morgan Stanley Investment Management Company are each an investment adviser which are registered under the Advisers Act. Morgan Stanley Investment Management Private Limited and Morgan Stanley Investment Management (Australia) Pty Limited are each an investment adviser which are not required to be registered, and are not registered, under the Advisers Act.

From time to time we may, with your prior consent, and 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 investment advisers. Our affiliated advisers may likewise delegate some or all of their responsibilities, duties and authority to us.

### **Registered Investment Companies**

We serve as investment adviser to Morgan Stanley Institutional Fund, Inc. ("MSIF"), Morgan Stanley Institutional Fund Trust ("MSIF Trust"), The Universal Institutional Funds, Inc. ("UIF"), and the Morgan Stanley Institutional Liquidity Funds each an open-end investment company registered under the 1940 Act.

We may invest client assets on a discretionary basis in MSIF, MSIF Trust, UIF, as well as other open-end and closed-end investment companies we, or our affiliates advise. Except in connection with the asset allocation service described under Item 4, client assets invested in the portfolios of MSIF and MSIF Trust and other open-end investment companies advised by us or our affiliates will be excluded from client portfolio assets for purposes of determining the investment management fee payable to us. We may include the value of closed-end funds we manage, for purposes of determining the investment management fee payable to us.

We have an arrangement with Morgan Stanley Institutional Liquidity Funds 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 each day end. 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.  
Morgan Stanley Global Opportunity Bond Fund, Inc.  
Morgan Stanley India Investment Fund, Inc.  
Morgan Stanley Eastern Europe Fund, Inc.  
Morgan Stanley Frontier Emerging Markets Fund, Inc.  
The Latin American Discovery Fund, Inc.  
The Malaysia Fund, Inc.  
The Thai Fund, Inc.  
The Turkish Investment Fund, Inc.

In addition, we serve as the Fund Administrator for MSIF, UIF, MSIF Trust and Morgan Stanley Institutional Liquidity Funds. We outsource many of the services we would otherwise directly provide as Administrator.

**Sub-Advisory Relationships:**

We and certain of our affiliates also act as sub-adviser to the following registered investment companies which are not sponsored by us:

Allianz Variable Insurance Products Trust - AZL Morgan Stanley Global Real Estate Fund and AZL Morgan Stanley Mid Cap Growth Fund; American Beacon Funds – Emerging Markets Fund; Equitable Advisors Trust - EQ/Global Multi-Sector Equity Portfolio and EQ/Morgan Stanley Mid Cap Growth Portfolio; AXA Premier VIP Trust: Multimanager Small Cap Growth Portfolio; Fidelity Rutland Square Trust II – Strategic Advisers Growth Multi-Manager Fund and Strategic Advisers Growth Fund; ING Investors Trust - ING Morgan Stanley Global Franchise Portfolio; Met Investors Series Trust - Morgan Stanley Mid Cap Growth Portfolio; Nationwide Variable Insurance Trust - NVIT Multi-Manager Small Company Fund and NVIT Real Estate Fund; Pacific Life Funds - PL Mid-Cap Growth Fund and PL Real Estate Fund; Pacific Select Fund - Mid Cap Growth Portfolio and Real Estate Portfolio; Penn Series Funds, Inc. - Emerging Markets Equity Fund; Principal Variable Contracts Fund - Asset Allocation Account; Columbia Variable Series Trust II - Variable Portfolio – Morgan Stanley Global Real Estate Fund; SunAmerica Series Trust - International Diversified Equities Portfolio; Transamerica Funds - Transamerica Developing Markets Debt, Transamerica Capital Growth, Transamerica Growth Opportunities and Transamerica Small Company Growth; Transamerica Series Trust – Transamerica Morgan Stanley Active International Allocation VP, Transamerica Morgan Stanley Mid-Cap Growth VP,

Transamerica Morgan Stanley Capital Growth VP and Transamerica Multi Managed Large Cap Core VP; VALIC Company I: Mid Cap Strategic Growth Fund .

We serve as adviser or sub-adviser to the following funds that are sponsored by us or our affiliates:

### **Offshore Funds**

Morgan Stanley Canadian Pooled Funds-Morgan Stanley International Equity Fund; Morgan Stanley Global Fixed Income SPC (a segregated portfolio company with four portfolios), Toronto Dominion Emerging Markets, Toronto Dominion Latin American Growth Funds; Morgan Stanley Offshore Emerging Markets Fund, Morgan Stanley Offshore International Equity Fund, Morgan Stanley Global Diversified Markets Fund (Cayman) Ltd. (feeder fund), Morgan Stanley Opportunistic Mortgage Income Fund (Cayman) LP (feeder fund), Morgan Stanley Emerging Markets Leaders fund (Cayman) LP, Oasis CBO, Limited, Oasis CBO Corp., Alpha Plus Funds, each a private investment company, and Morgan Stanley Multi-Strategy Fund plc, and Morgan Stanley Alpha Funds plc, each an offshore open-ended umbrella investment company.

### **Group Trusts**

Morgan Stanley Investment Management Active International Allocation Trust, Morgan Stanley Investment Management Asian Equity Trust, Morgan Stanley Investment Management Emerging Markets Debt Trust, Morgan Stanley Investment Management Emerging Markets Trust, Morgan Stanley Investment Management Growth Trust, Morgan Stanley Investment Management International Growth Equity Trust, Morgan Stanley Investment Management International Equity Trust, Morgan Stanley Investment Management International Equity Trust II, Morgan Stanley Investment Management International Small Cap Trust, Morgan Stanley Investment Management Small Company Growth Trust and Morgan Stanley Investment Management U.S. Real Estate Trust.

### **Limited Partnerships**

Morgan Stanley Real Estate Securities Global Best Ideas Fund LP, Morgan Stanley Global Diversified Markets Fund LP (master fund) and Morgan Stanley Opportunistic Mortgage Income Fund LP (master fund).

### **Limited Liability Companies**

Morgan Stanley GAIA Portfolio, LLC.

### **PA Trust**

Morgan Stanley Stable Value Fund

### **SICAV**

Morgan Stanley Investment Funds

### **Other**

Morgan Stanley Money Market Family



## **Miscellaneous**

Pursuant to an order issued by the SEC, registered investment companies (and the portfolios of such registered investment companies) advised by us may pool their daily uninvested cash balances in order to invest in repurchase agreements on a joint basis with other investment companies advised by us. By entering repurchase agreements on a joint basis we expect to incur lower transaction costs and potentially obtain higher rates of interest on such repurchase agreements. Each investment company's or portfolio's participation in the income from jointly purchased repurchase agreements is based on that investment company or portfolio's percentage share in the total repurchase agreement. The SEC order provides for conditions intended to avoid potential conflicts of interest.

Pursuant to an order issued by the SEC, certain registered investment companies are permitted to engage in principal transactions involving money market instruments with MS&Co., subject to certain conditions, which are intended to avoid possible conflicts of interest.

Pursuant to rules promulgated by the SEC, registered and unregistered investment companies may use affiliated and unaffiliated money market funds for cash sweep arrangements in which the investment companies may invest an unlimited amount of their available cash in a money market fund rather than directly in short-term investments. We have entered into an arrangement whereby the investment companies that it advises ("investing funds") may sweep their respective full cash balances into certain portfolios of the Morgan Stanley Institutional Liquidity Funds, an affiliated money market fund advised by us. Each investing fund's advisory fees paid to us will be reduced by the pro rata amount of the management and administrative fees paid by the investing fund to the Morgan Stanley Institutional Liquidity Funds in connection with the investing fund's cash sweep investment.

Our affiliate, Morgan Stanley Smith Barney LLC, is a joint venture owned by both Morgan Stanley and CitiGroup. Since we are a subsidiary of Morgan Stanley, we are considered a "second-tier affiliate" of CitiGroup and are prohibited from entering into principal transactions with CitiGroup on behalf of registered investment companies advised by us or our affiliates. However, pursuant to an order issued by the SEC, registered investment companies advised by us and our affiliates are permitted to engage in principal transactions involving fixed income securities with Citi Global Markets Inc. and other of its affiliated broker-dealers that may be deemed affiliated persons of such registered investment companies, subject to certain conditions, which are intended to avoid possible conflicts of interest.

Certain of our affiliates act as general partner in several limited partnerships in which clients have been solicited to invest. In some cases, the general partner is entitled to receive an incentive allocation from a partnership. Certain of these limited partnerships are focused on private equity investing and make investments in leveraged buyouts, venture capital opportunities, research and development ventures, real estate and other businesses. Other such partnerships have been formed to act as "fund-of-fund" investment vehicles for hedge fund and private equity investments. Others invest in real estate investment trusts and fixed income instruments.

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.

We are registered with the Commodity Futures Trading Commission as a Commodity Trading Advisor ("CTA") and Commodity Pool Operator ("CPO") and are a member of the National Futures Association.

We provide certain of our institutional clients with access to custodial services pursuant to a master custodian contract we have established with a "qualified custodian." Payment for such custodial services is remitted directly to us along with the applicable advisory fees. We pass the custody fees to the custodian in accordance with the terms of the agreement.

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 and 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.

Additional information about conflicts that may be caused by these affiliations is provided in response to Items 11 and 12 of this Brochure.

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

### **Code of Ethics**

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

The Code requires all employees to pre-clear trades for covered securities, as defined under the Code, in a personal account. A pre-clearance request will be denied if there is an open order for a client in the same security. The Code also imposes holding periods and reporting requirements for covered securities, which 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 affiliates (“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, 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.

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 pursue the acquisition of investment managers who will manage private investment funds that would otherwise qualify as investments for the fund of funds clients. Due to the conflicts of interest involved and in accordance with applicable law, we will not make any long-term investment for the fund of fund clients in any investment fund that is managed by our affiliate, unless we determine that (a) the investment is in accordance with the applicable fund of funds' relevant investment objectives, strategies and policies; and (b) such investment would not otherwise be prohibited by law or regulation. Accordingly, there may be investments that are unavailable to certain fund of fund clients due to the manager's affiliation with us. Further, in the event that we acquire a business or investment manager that is a manager of any investment fund, we may need to liquidate any investment by a fund of funds client in an investment fund managed by such affiliated investment manager.

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 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.

We may effect "agency cross transactions" in which an Affiliated Broker-Dealer acts as agent for both the buyer or 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 or when no commission is charged on either side of the transaction. 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.

On occasion, 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. 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 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.

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 investment 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.

### **ECN and ATS Activities**

Our affiliates have ownership interests in and/or Board seats on electronic communication networks ("ECNs") or other alternative trading systems ("ATSs"). In certain instances our affiliates may be deemed to control one or more of such ECNs or ATSs based on the level of such ownership interests and whether such affiliates are represented on the Board of such ECNs or ATSs. 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 ATSs 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

ATSS. We will, directly or indirectly, execute through an ECN or other ATSS in which an affiliate has an interest only in situations where we or the broker dealer through whom we are accessing the ECN or ATSS reasonably believes such transaction will be in the best interest of its clients and the requirements of applicable law have been satisfied. Currently, our affiliates own over 5% of the outstanding voting securities and/or have a member on the Board of (i) BATS Trading, Inc., operator of BATS Electronic Trading Network (commonly referred to as "BATS") (ii) the entities that own and control the Block Interest Discovery Service (commonly referred to as "BIDS") (iii) the entity that owns and controls Pure Trading, (iv) Liquidity Hub Limited, (v) Turquoise, (vi) TradeWeb Newco, (vii) OTC Derivnet, (viii) Municenter, (ix) Markit, (x) FxAll, (xi) ICE US Holding Company, LP, (xii) Olivetree; and (xiii) Chi-X Global Holdings LLC (CXG). Our affiliates may acquire interests in and/or take Board seats on other ECNs or other ATSS (or increase ownership in the ATSS's listed above) in the future.

Our affiliates receive cash credits from certain ECNs and ATSS for orders that provide liquidity to their books such ECNs and ATSS 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 ATSS may exceed the amount that is charged. Under these limited circumstances, such payments would constitute payment for order flow.

### **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 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.

### **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, administration, 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 recommended to clients. Moreover, we may 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 first.

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.

## **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.

Certain of our employees and related persons have been designated to review transactions in which conflicts of interest may exist, including those described above, to ensure that the applicable policies and legal or regulatory requirements are duly followed.

## **ITEM 12      BROKERAGE PRACTICES**

In selecting a broker-dealer to execute trades on behalf of clients, we generally seek to obtain "best execution" for client transactions (i.e., the most favorable 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) there is material risk that the overall cost to purchase securities will be higher or the proceeds from the sale of securities will be lower; (ii) a higher commission is justified by the trading or research services provided by the broker-dealer that fall within the safe harbor of Section 28(e) of the 1934 Act, 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 dictate utilizing a different broker-dealer.

The commission rates paid by client accounts which prohibit the generation of soft dollars ("Execution Only Accounts") are not reduced below the rates paid by client accounts which generate soft dollars. Typically, Execution Only Accounts are included in "bunched" trades effected on behalf of all client accounts buying the same security on the same day. Accordingly, notwithstanding the fact that soft dollars are not generated from the trades effected for Execution Only Accounts, clients prohibiting soft dollars will be paying the same commission rate paid by other clients included in the bunched trade which, as explained above, may be a higher commission rate than another broker would have charged.

### **Soft Dollars – Commission Management Program**

Along with our affiliated Advisers we have established commission sharing arrangements under a commission management program (the "Commission Management Program" or "CMP") implemented July 1, 2007, pursuant to which execution and research costs or a portion of those costs are decoupled in accordance with applicable laws, rules and regulations. Under the CMP, we, and our Affiliated Advisers select approved equity brokers (which include our affiliates) for execution services and after accumulation of commissions at the broker then instruct these approved equity brokers to transfer a predetermined percentage of commissions to an aggregator. We then instruct the aggregator to utilize these balances to pay for eligible research provided by executing brokers or third-party research providers. Generally, we, or our Affiliated Advisers will direct the aggregator to record research credits based upon a previously agreed allocation and will periodically instruct the aggregator to direct specified



dollar amounts from that pool to pay for eligible research services provided by third-party research providers and executing brokers. The research credits are pooled among us and our Affiliated Advisers and allocated on behalf of both us and our Affiliated Advisers. Likewise, the research services obtained under the CMP are shared among us and our Affiliated Advisers.

Selection of approved equity brokers for execution is based on three main criteria: access to liquidity, provision of capital and quality of execution. Under the CMP, the approved equity broker is responsible for the payment of fees for research services and obtains the research services pursuant to written agreements between the approved equity broker and the third-party research provider.

For those costs not decoupled, but retained by broker-dealer, we also effects transactions with brokers which directly pay for research services provided by third parties in accordance with Section 28(e) of the 1934 Act. Such transactions include equity and may include fixed-income transactions effected on an agency basis.

To the extent that personnel employed by us are also employed by one or more Affiliated Advisers and they are authorized to exercise investment discretion on behalf of another Affiliated Adviser, transactions involving client accounts managed by two or more Affiliated Advisers may be aggregated and executed using the services of broker-dealers that provide third party benefits/research so long as: (i) all client accounts involved in the transaction benefit from one or more of the services offered by such broker-dealer; (ii) each Affiliated Adviser has approved the use of such broker-dealer and the services provided thereby.

The research services received include those of the nature described above and other services which aid us in fulfilling its investment decision making responsibilities, including (a) furnishing advice as to the value of securities, the advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities; and (b) furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts. Where a particular item (such as proxy services) has both research and non-research related uses, we will make a reasonable allocation of the cost of the item between research and non-research uses and will only pay for the portion of the cost allocated to research uses with client brokerage transactions. Research services furnished or paid for by brokers through whom we effect transactions for a particular account may be used by us or our Affiliated Advisers in servicing their other accounts, and not all such services may be used for the benefit of the client which pays the brokerage commission which results in the receipt of such research services. Commissions paid to brokers providing research services may be higher than those charged by brokers not providing services. We and our Affiliated Advisers make a good faith determination of the value of research services in accordance with Section 28(e) of the 1934 Act, UK Financial Services Authority Rules that also may apply and other relevant regulatory requirements.

Certain investment professionals and other employees of ours are also officers of Affiliated Advisers and may provide investment advisory services to clients of such Affiliated Advisers. Our personnel also provide research and trading support to personnel of certain Affiliated Advisers. Research related costs may be shared by Affiliated Advisers and may benefit the clients of such Affiliated Advisers. Research services that benefit we may be received in connection with commissions generated by clients of its Affiliated Advisers. Similarly, research services received in connection with commissions generated by our clients may benefit Affiliated Advisers and their clients. Moreover, research services provided by broker-dealers through which we effect transactions for a particular account may be used by us and/or an Affiliated Adviser in servicing its other accounts and not all such research services may be used for the benefit of the particular client, which pays the brokerage commission giving rise to the receipt of such research services.

## **Trade Allocations**

Investment decisions for each client are made based on the individual investment mandate for each client, and in each client's best interest. We may, however, purchase or sell the same securities or instruments for a number of client accounts, including clients of its affiliates, simultaneously. These accounts may include pooled vehicles, including partnerships and investment companies for which we, along with related persons of ours act as general partner, investment manager and/or administrator. They may also include accounts in which our, officers, employees or related persons of ours have a financial interest, and accounts of deferred compensation and/or retirement plans covering employees of us and our affiliates ("Proprietary Accounts"). As a general rule, contemporaneous orders placed on behalf of eligible clients in the same security will be blocked in a single order if the terms of the order are the same (e.g., orders at market price), to facilitate best execution and to reduce brokerage commissions or other costs.

We effect block transactions in a manner designed to ensure that no participating client, including any Proprietary Account, is favored over any other client. Specifically, all eligible accounts participating in a block trade receive the average price for transactions executed for that order.

Block trades are allocated to eligible client accounts in a fair and equitable manner. In general, accounts that participate in a block transaction will participate on a pro rata or other objective basis. Pro rata allocation of equity securities 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 block trade.

Generally, with respect to fixed income securities and other instruments, we seek to allocate partial fills in a fair and equitable basis. However, due to the limited supply of certain securities and the differing portfolio characteristics among accounts, we may allocate such securities and other instruments using a method other than pro rata, based upon pre-determined criteria. These allocations are made in the good faith judgment of us with a goal of ensuring that fair and equitable allocation will occur over time.

Notwithstanding the foregoing, we may increase or decrease the amount of securities allocated to each account participating in a block trade if necessary to avoid holding odd-lot or small numbers of shares for particular clients. Additionally, if we are unable to fully execute a block transaction and we determine that it would be impractical to allocate a small number of securities among the accounts participating in the transaction on a pro rata basis, we may allocate such securities in a manner determined in good faith to be a fair allocation.

## **Directed Brokerage**

Limitations on our authority may vary depending upon the desires of each individual client. We, from time to time, have both Discretionary Clients (clients who have authorized us to execute transactions for their accounts without prior approval), as well as Non-Discretionary clients (clients who require that each securities transaction be authorized by them in advance). In either group, clients may limit our authority by: (1) requiring that certain securities transactions be authorized by them in advance, or (2) prohibiting or limiting the purchasing of certain securities or industry groups. In addition, a client may further limit our authority by (i) requiring that all or a portion of the client's transactions be executed through the client's designated broker-dealer ("Designated Broker") and/or (ii) restricting us from executing the client's transactions through a particular broker-dealer.

In situations where a client directs or restricts brokerage for their accounts ("Directed/Restricted Trades"), because the client has placed limitations on the selection of broker-dealers to execute Directed/Restricted Trades, we may be unable to obtain best execution for such trades. We will direct to the designated

brokers only agency transactions for the account that involve securities listed or quoted on a national securities exchange; 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; the account may forego benefits from savings on execution costs that may otherwise be obtained, most notably by aggregating brokerage orders for various client accounts; if a designated broker 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 to obtain commission rates more favorable or otherwise different than those to which the client has agreed; a Directed/Restricted 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 where we effect a transaction through a designated broker pursuant to a Directed/Restricted Trade, we may effect such transaction after it has effected transactions in the same security for client accounts for which we have discretion to select the broker. Where a client has directed brokerage for its account and maintains that we remain subject to best execution, we may aggregate those directed 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. In other instances, where (i) the client has waived our best execution obligation and has been informed of the consequences of doing so; (ii) you have represented to us that the client has independently determined best execution; or (iii) we have determined that the trade is consistent with its best execution obligation, Directed/Restricted Trades may not be aggregated or "blocked" for execution with transactions in the same securities for other clients and may be traded after the order for the other client accounts has been completed. As a result, such clients may pay higher commissions or receive less favorable net prices than would be the case if we were authorized to choose the broker through which to execute transactions for the client's account.

In situations in which a client has restricted or prohibited trading by us through its affiliated broker-dealer (or other broker-dealers) and we determine, subject to its obligation to seek best execution, to place a trade through that affiliated (or other) broker-dealer on behalf of its other client accounts, the restricted or prohibited trades may not be aggregated or "blocked" for execution with transactions in the same securities for other clients and may be traded after the order for the other client accounts has been completed. As a result, such clients may pay higher commissions or receive less favorable net prices than would be the case if we were authorized to execute such trades through its affiliated (or other) broker for the client's account.

If we agree to satisfy your direction to execute transactions for your account through Designated Brokers, you will generally be required to confirm that: (i) your direction is suitable and appropriate in respect of the account and you have not relied on investment advice from us (or any affiliate of ours) in connection with your direction; (ii) all services provided by any designated broker will inure solely to the benefit of the account and any beneficiaries of the account, are proper and permissible expenses of the account, and may properly be provided in consideration for brokerage commissions or other remuneration paid to such designated broker in connection with securities transactions effected for the account; (iii) any client direction to use a designated broker will be in the best interests of the account and any beneficiaries of the account, taking into consideration the services provided to the account by such designated broker; (iv) your direction will not conflict with any obligations that persons acting for the account may have to the account, its beneficiaries or any third parties, including any fiduciary obligations that persons acting for the account may have to obtain best price and execution for the account and its beneficiaries; and (v) persons acting for the account have the requisite power and authority to provide the client directions set forth therein on behalf of the account and have obtained all consents, approvals or authorizations from any beneficiaries of the account and third parties that may be required under applicable law or any of the client's governing documents.

We have adopted a Directed Brokerage Policy designed to balance the needs and requests of clients that have Directed/Restricted trades with those clients who do not partake in directed or restricted brokerage programs. Under our Directed Brokerage Policy: (i) only certain types of orders qualify for directed brokerage; (ii) directed brokerage is effectuated through electronic channels only; (iii) designated brokers must qualify as Electronic Trading Partners; and (iv) Designated Brokers may only charge (or recapture) that part of the bundled commission that is consistent with the services being provided to us. In certain instances you may negotiate directed brokerage arrangements that differ from our Directed Brokerage Policy. Requests for such arrangements are addressed by us on a case by case basis.

#### **ITEM 13      REVIEW OF ACCOUNTS**

Our portfolio managers regularly 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 as frequently as quarterly or as infrequently as annually (as agreed to with you) 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.

#### **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's. 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 unaffiliated consultants that are retained by clients or prospective clients. While we do not make payments for solicitations or client referrals to these consultants, we 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 party's best interest.

#### **ITEM 15      CUSTODY**

We are deemed to have "custody" of the assets for the funds for which our affiliate serves as general partner or for which we are the managing member. In those cases, the funds provide audited financial statements on an annual basis in accordance with applicable law.

## **ITEM 16      INVESTMENT DISCRETION**

We typically receive discretionary authority to select the identity and amount of securities to be bought or sold at the time we establish an advisory relationship with you. In all cases, however, such discretion is exercised in a manner consistent with your stated investment objectives and guidelines. As discussed under Item 12 of this Brochure, you may impose certain limitations on our use of broker-dealers. Other limitations may be negotiated between us and you on a case-by-case basis.

When selecting securities and determining amounts we adhere to the investment policies, limitations and restrictions established in the investment management agreement. For registered investment companies, our authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

## **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. With respect to our MSIM registered management investment companies (the “MSIM Funds”), we 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 MSIM 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.

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

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

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

Votes on director nominees can involve balancing a variety of consideration, including those related to board and board committee independence, term length, whether nominees may be overcommitted, director attendance and diligence, director skills and the balance of expertise on the board, financial

knowledge and experience, executive and director remuneration practices, and board responsiveness. We consider withholding support from or voting against a nominee if 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 and burn rates as reasonable, and if plan provisions sufficiently protect shareholder interests. We also support appropriately structured bonus and employee stock purchase plans.

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

**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 Corporate Governance determines that an issue raises a material conflict of interest, the Director may request a special committee to review, and recommend a course of action with respect to, the conflict(s) in question.

**Further Information:** 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 is available (i) without charge by accessing the Mutual Fund Center on our web site at [www.morganstanley.com/funds](http://www.morganstanley.com/funds) and (ii) on the SEC’s web site at [www.sec.gov](http://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 has not been the subject of a bankruptcy proceeding.