

# Form ADV Firm Brochure Morgan Stanley Smith Barney Private Management, LLC

**March 31, 2017**

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**This Brochure provides information about the qualifications and business practices of Morgan Stanley Smith Barney Private Management, LLC (“PM”). If you have any questions about the contents of this Brochure, please contact us at tel. 212-761-4000. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about PM also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the SEC does not imply a certain level of skill or training.**

## Item 2: Material Changes

This section identifies and discusses material changes to the ADV Brochure since the version of this Brochure dated March 30, 2016. For more details on any particular matter, please see the item in this ADV Brochure referred to in the summary below.

### **Disciplinary Information.**

On February 14, 2017, the SEC entered into a settlement with MSSB regarding an administrative action. In this matter, MSSB admitted to certain facts within the order and consented to the entry of the order that finds that MSSB willfully violated section 206(4) of the Investment Advisers Act of 1940 and Rule 206(4)-7 thereunder. (Item 9).

On January 13, 2017, the SEC entered into a settlement with MSSB regarding an administrative action. In this matter, without admitting or denying the findings within the order, MSSB consented to the entry of the order that finds that MSSB willfully violated sections 204(A), 206(2) and 206(4) of the Investment Advisers Act of 1940 and Rules 204-2(a)(10), 204-2(e)(1), 206(4)-2 and 206(4)-7 thereunder. The order referred to herein may be viewed at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV). Copies of the order may also be requested by contacting (888) 250-6464 or emailing [client.services@ms.com](mailto:client.services@ms.com). (Item9)

On June 8, 2016, the SEC entered into a settlement with MSSB regarding an administrative action (“June 2016 Order”). In this matter, without admitting or denying the findings within the June 2016 Order, MSSB consented to the entry of the June 2016 Order that finds that MSSB willfully violated Rule 30(a) of Regulation S-P (17 C. F. R. § 248.30(a)) prior to December 2014. (Item 9)

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## Item 4: Advisory Business

### A. Description of PM, Principal Owners

Morgan Stanley Smith Barney Private Management LLC ("PM") was organized in 1999 and is wholly-owned by Morgan Stanley Smith Barney Holdings LLC ("Holdings"). Prior to June 28, 2013, PM was indirectly owned 65% by Morgan Stanley ("Morgan Stanley Parent") and 35% by Citigroup Inc. ("Citigroup" or "Citi"). On June 28, 2013, Morgan Stanley Parent purchased Citi's 35% interest in PM. Accordingly, PM is now a wholly owned indirect subsidiary of Morgan Stanley Parent.

PM serves as the investment adviser to several investment partnerships (individually a "Fund" and collectively the "Funds") organized by Salomon Smith Barney Inc. (the predecessor of Citigroup Global Markets Inc. ("CGM" or "CGMI")) to offer qualified investors the opportunity to invest in private equity investment "funds of funds."

For additional information about PM, a copy of PM's Form ADV Part 1 is available upon request. Form ADV Part 1 is also publicly available at the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### B. Description of Advisory Services

As investment adviser, PM invests the assets of each Fund in various underlying private equity investment funds that it selects (the "Underlying Funds"). A complete description of each Fund, including its investment objective, operations and activities, management fees, incentive allocations and structure can be obtained from the Confidential Private Offering Memorandum for such Fund that is delivered to investors in such Fund prior to investment. PM does not provide investment advice directly to investors in the Funds. PM provides investment advisory services to each Fund pursuant to an investment advisory agreement between PM and such Fund. The investment advisory agreement sets forth the circumstances under which the Fund may terminate the services of PM prior to the end of the Fund's term.

PM terminated the Second Amended and Restated Administration Agreement among PM, StepStone Group LLC ("StepStone"), Morgan Stanley Smith Barney Venture Services, LLC ("VS"), an affiliate of PM, Morgan Stanley Smith Barney Private Management II LLC ("PM II"), an affiliate of PM, the Funds and certain investment funds advised by affiliates of PM ("Affiliated Funds"), dated as of January 1, 2013 ("Administration Agreement"). StepStone had been appointed administrator of each of the Funds. In that capacity, StepStone performed for the Funds, in place of PM, some of the activities (including certain administrative and investment advisory services) described in this Form ADV as being performed for the Funds by PM.

As investment adviser to a Fund, PM is responsible for selecting the Underlying Funds in which such Fund invests. The Underlying Funds, which generally will be structured as limited partnerships, limited liability companies and other similar structures, generally will acquire private equity and equity-related securities in connection with leveraged acquisitions, management buyouts, venture capital, recapitalizations, expansion opportunities, privatizations and similar negotiated transactions.

PM is responsible for investing cash held by a Fund in temporary investments pending investment in an Underlying Fund, pending distribution to investors in the Fund or for any other purpose. "Temporary Investments" include (a) cash or cash equivalents, (b) marketable direct obligations issued or unconditionally guaranteed by the United States of America, or issued by any agency thereof, maturing within one year from the date of acquisition thereof, (c) money market instruments or other short-term debt obligations having at the date of purchase by the Partnership the highest or second highest rating obtainable from either Standard & Poor's Corporation or Moody's Investor Services, Inc. or their successors, (d) interest bearing accounts at a registered broker-dealer, (e) obligations of, or fully guaranteed as to timely payment of principal and interest by, the United States of America and with a maturity date not in excess of 18 months from the date of purchase by the Partnership, (f) interest bearing accounts and/or certificates of deposit of any U.S. bank with capital and surplus in excess of \$200 million and whose debt securities are rated at least A by Moody's Investor Services, Inc. and A2 by Standard and Poor's Corporation, (g) repurchase agreements of any U.S. bank with capital and surplus in excess of \$200 million and whose debt securities are rated at least A by Moody's Investor Services, Inc. and A2 by Standard and Poor's Corporation, (h) a registered investment company that holds itself out as complying with Rule 2a-7 under the Investment Company Act, or (i) pooled investment funds or accounts which invest only in securities or instruments of the type described in (a) through (d). Temporary Investments may include instruments issued, or funds managed, by an affiliate of PM, in which case such affiliate will receive fees or other compensation in connection with such investment.

A Fund may receive distributions from an Underlying Fund in kind in the form of marketable securities of portfolio companies, some of which may be restricted securities. With respect to such distributions, PM has the discretion to sell such securities and distribute the cash proceeds, distribute such securities in kind or offer the Fund's limited partners the option, subject to PM's consent, either to receive the securities in kind or to have the Fund sell them and distribute the cash proceeds. While PM will use reasonable efforts either to sell or to distribute marketable securities promptly, a Fund's investors will bear any associated costs or market risks during the disposition process.

PM and certain of its former affiliates (Salomon Smith Barney/Travelers REF GP, LLC and SSB Greenwich Street Partners LLC) also serve as general partner and/or "investment adviser" of several domestic limited partnership "feeder funds" in which substantially all

of the assets of the feeder fund are invested in another designated underlying fund or as “investment manager” of several offshore feeder funds in which all of the assets of the offshore feeder fund are invested in a designated domestic investment fund advised by PM or an affiliate. PM’s role (or that of its affiliate) with respect to such domestic feeder funds is essentially administrative and mechanical, rather than investment advisory in nature, as PM is responsible primarily for effecting the feeder fund’s investment in the designated domestic investment fund as directed by the feeder fund’s governing documents, although PM will also be responsible for investing the feeder fund’s cash. PM receives no separate compensation for serving as “investment manager” for offshore feeder funds (although PM or an affiliate will receive compensation with respect to the designated domestic investment fund) and generally exercises no “investment management” responsibility with respect to the investment of the offshore feeder fund’s assets as it is responsible primarily for effecting the offshore feeder fund’s investment in the designated domestic investment fund as directed by the offshore feeder fund’s governing documents. While PM’s role with respect to the feeder funds is essentially administrative and mechanical, the assets under management reported include those applicable to such feeder funds.

### **C. Customized Advisory Services and Client Restrictions**

Subject to the supervision and direction of a Fund’s general partner, PM will manage a Fund’s investment portfolio and make investment decisions for such Fund in accordance with the investment objective, policies, restrictions and limitations specified in such Fund’s Confidential Private Offering Memorandum and such Fund’s Limited Partnership Agreement or other applicable constituent documents.

PM establishes an Investment Selection Committee for each Fund which is responsible for the selection of the Underlying Funds in which the Fund invests. Each Investment Selection Committee may include senior professionals drawn from among the following investment resources of PM’s affiliates: (i) Morgan Stanley Smith Barney LLC (“MSSB”), and (ii) Morgan Stanley and each of their respective affiliates.

The selection of Underlying Funds for a Fund by such Fund’s Investment Selection Committee is based on a review and assessment of potential funds, their management teams, and such teams’ track records, taking into consideration such Fund’s investment objective, policies, restrictions and limitations set forth in such Fund’s confidential Private Offering Memorandum and such Fund’s Limited Partnership Agreement.

It should be noted that an investment in an Underlying Fund is an illiquid investment and generally will be held until the Underlying Fund terminates. A Fund generally has limited or no redemption or transfer rights with respect to an investment in an Underlying Fund. Accordingly, a Fund’s Investment Selection Committee has no significant ongoing role following the selection of Underlying Funds for the Fund. Currently, the Investment Selection Committees have no active role since all Underlying Funds have been selected for all Funds.

### **D. Portfolio Management Services to Wrap Fee Programs**

PM does not provide portfolio management services to wrap fee programs.

### **E. Assets Under Management (“AUM”)**

Discretionary AUM at PM was approximately \$4,000,000.00.

## **Item 5: Fees and Compensation**

### **A. Compensation for Advisory Services**

PM’s management fee generally ranges from 1.25% to 1.50% per annum of each investor’s capital commitment to the Fund during the investment period; thereafter the fee is calculated on invested capital, as defined in each Fund’s Confidential Private Offering Memorandum. PM may, in its sole discretion, reduce or waive the management fee with respect to any investor. In addition, PM receives an incentive allocation (“Carried Interest”) when a Fund’s investment returns exceed certain specified levels. PM’s Carried Interest generally is 5% of a Fund’s profits following return of capital and payment of a preferred return to investors. A Fund, in its sole discretion, may reduce or waive the Carried Interest to be received by PM with respect to any investor. Upon termination of a Fund, PM is required to restore funds to a Fund, if and to the extent PM received cumulative Carried Interest distributions (net of taxes) in excess of Carried Interest amounts otherwise distributable to PM pursuant to the specified formula applied on an aggregate basis to all distributions made by such Fund. Amounts so restored by PM will be distributed to the investors in the Fund. In addition, a Fund, as an investor in Underlying Funds, will be subject to all fees and expenses of such Underlying Funds as provided in their organizational documents, including any management fees and carried interest obligations. A complete description of the fees payable by a Fund can be obtained from the Confidential Private Offering Memorandum for such Fund that is delivered to investors in such Fund prior to investment.

### **B. Payment of Fees**

As compensation for providing investment advisory services to a Fund, PM is paid a quarterly management fee, in arrears, by the Fund at a per annum rate set forth in the Confidential Private Offering Memorandum for such Fund that is delivered to investors in such Fund prior to investment.

### **C. Additional Fees and Expenses**

The fees described in this Brochure do not cover:

- the costs of investment management fees and other expenses charged by the investment manager to the Underlying Funds in which the Fund invests
- “mark-ups,” “mark-downs,” and dealer spreads (A) that affiliates of PM may receive when acting as principal in certain transactions where permitted by law or (B) that other broker-dealers may receive when acting as principal in certain transactions effected through PM and/or its affiliates acting as agent, which is typically the case for dealer market transactions (e.g., fixed income and over-the-counter equity)
- brokerage commissions or other charges resulting from transactions not effected through PM or its affiliates
- account closing/transfer costs
- processing fees or
- certain other costs or charges that may be imposed by third parties (including, among other things, odd-lot differentials, transfer taxes, foreign custody fees, exchange fees, supplemental transaction fees, regulatory fees and other fees or taxes that may be imposed pursuant to law).

For more information regarding brokerage commissions, see Item 12.

### **D. Prepayment of Fees**

PM does not offer Funds the ability to pay for fees in advance.

## **Item 6: Performance Based Fees and Side by Side Management**

Please see Item 5.A for a description of the compensation PM receives based on Carried Interest. Generally, all Funds managed by PM are charged Carried Interest.

## **Item 7: Types of Clients**

PM serves as the investment adviser to Funds to offer qualified investors the opportunity to invest in private equity investment “funds of funds.” PM does not provide investment advice directly to investors in the Funds. PM provides investment advisory services to each Fund pursuant to an investment advisory agreement between PM and such Fund. While PM does not provide investment advisory services directly to investors in the Funds, each Fund requires a minimum capital commitment generally ranging from \$500,000 to \$1,000,000 from each investor. PM may accept a lower capital commitment in PM’s discretion.

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

### **A. Method of Analysis and Investment Strategies**

As described in Item 4B, PM provides discretionary management to the Funds. Investing in securities involves risk of loss that the Funds and investors in the Funds should be prepared to bear. Investors in Funds should review the Confidential Private Offering Memorandum for their particular Fund for a discussion on the material risks associated with the types of investments in which the Fund invests.

**Other Relationships with Managers.** Some managers of the Underlying Funds that PM recommends may have business relationships with PM or its affiliates. For example, a manager may use MS&Co. or an affiliate as its broker or may be an investment banking client of MS&Co. or an affiliate. PM does not consider the existence nor lack of a business relationship in determining whether to recommend an Underlying Fund.

### **B. Material, Significant, or Unusual Risks Relating to Investment Strategies**

All trading by a Fund is at the Fund’s own risk. The value of the assets in a Fund is subject to a variety of factors. PM does not guarantee performance, and our past performance with respect to other funds does not predict any Fund’s future performance.

For other risks relating to the particular strategy you hold in your Investors in Funds should review the Confidential Private Offering Memorandum for their particular Fund(s) for a discussion on the material risks associated with the particular strategy used by PM for the Fund in which the investor participates.

### **C. Risks Associated with Particular Types of Securities**

**Risks Relating to Alternative Investments.** As further described in each Fund’s Confidential Private Offering Memorandum, an investment in alternative investments can be highly illiquid, is speculative and not suitable for all investors. Investing in alternative investments is intended for experienced and sophisticated investors only who are willing to bear the high economic risks of the

investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include: loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; lack of liquidity, in that there may be no secondary market for the fund and none expected to develop; volatility of returns; restrictions on transferring interests in the fund; potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; absence of information regarding valuations and pricing; complex tax structures and delays in tax reporting; less regulation and higher fees than mutual funds; and advisor risk. Individual funds will have specific risks related to their investment programs that will vary from fund to fund.

Investors in Funds should review the Confidential Private Offering Memorandum for their particular Fund for a discussion on the material risks associated with the types of investments in which the Fund invests.

**Operations Risks.** Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and the systems of third parties with which we do business or that facilitate our business activities (e.g., vendors). Like other financial services firms, we and our third party providers have been and continue to be subject to unauthorized access, mishandling or misuse, computer viruses or malware, cyber attacks, denial of service attacks and other events. The increased use of smartphones, tablets and other mobile devices may also heighten these and other operational risks. Events such as these could have a security impact on our systems and jeopardize our or our clients' or counterparties' personal, confidential, proprietary or other information processed and stored in, and transmitted through, our and our third party providers' computer systems. Furthermore, such events could cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations, which could result in reputational damage, client dissatisfaction, litigation or regulatory fines or penalties not covered by insurance maintained by us, and adversely affect our business, financial condition or results of operations.

## Item 9: Disciplinary Information

This section contains information on certain legal and disciplinary events.

In this section, "MSDW" means Morgan Stanley DW Inc., a predecessor broker-dealer of MS&Co. and registered investment adviser that was merged into MS&Co. in April 2007. MS&Co. and CGM are predecessor broker-dealer firms of MSSB.

- On May 9, 2007, the SEC issued an Order ("May 2007 Order") settling an administrative action with MS&Co. In this matter, the SEC found that MS&Co. violated its duty of best execution under the Exchange Act. In particular, the SEC found that, during the period of October 24, 2001 through December 8, 2004, MS&Co.'s proprietary market-making system failed to provide best execution to certain retail OTC orders. In December 2004, MS&Co. removed the computer code in the proprietary market-making system that caused the best execution violations. MS&Co. consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, to pay disgorgement of approximately \$5.9 million plus prejudgment interest on that amount, and to pay a civil penalty of \$1.5 million. MS&Co. also consented to retain an Independent Compliance Consultant to review its policies and procedures in connection with its market-making system's order handling procedures and its controls relating to changes to those procedures, and to develop a better plan of distribution.
- On September 27, 2007, MS&Co. entered into a LAWC with the Financial Industry Regulatory Authority ("FINRA"). FINRA found that, from October 2001 through March 2005, MSDW provided inaccurate information to arbitration claimants and regulators regarding the existence of pre-September 11, 2001 emails, failed to provide such emails in response to discovery requests and regulatory inquiries, failed adequately to preserve books and records, and failed to establish and maintain systems and written procedures reasonably designed to preserve required records and to ensure that it conducted adequate searches in response to regulatory inquiries and discovery requests. FINRA also found that MSDW failed to provide arbitration claimants with updates to a supervisory manual in discovery from late 1999 through the end of 2005. MS&Co. agreed, without admitting or denying these findings, to establish a \$9.5 million fund for the benefit of potentially affected arbitration claimants. In addition, MS&Co. was censured and agreed to pay a \$3 million regulatory fine and to retain an independent consultant to review its procedures for complying with discovery requirements in arbitration proceedings relating to its retail brokerage operations.
- On October 10, 2007, MS&Co. became the subject of an Order Instituting Administrative and Cease-And-Desist Proceedings ("October 2007 Order") by the SEC. The October 2007 Order found that, from 2000 until 2005, MS&Co. and MSDW failed to provide to their retail customers accurate and complete written trade confirmations for certain fixed income securities in violation of the Exchange Act and MSRB rules. In addition, MS&Co. was ordered to cease and desist from committing or causing any future violations, and was required to pay a \$7.5 million penalty and to retain an independent consultant to review MS&Co.'s applicable policies and procedures. MS&Co. consented to the issuance of the October 2007 Order without admitting or denying the SEC's findings.
- On December 18, 2007, MS&Co. became the subject of an Order Instituting Administrative Cease-and-Desist Proceedings ("December 2007 Order") by the SEC. The December 2007 Order found that, from January 2002 until August 2003, MSDW (1) failed to reasonably supervise four Financial Advisors, with a view to preventing and detecting their mutual fund market-timing activities and (2) violated the Investment Company Act of 1940 by allowing multiple mutual fund trades that were placed or



amended after the close of trading to be priced at that day's closing net asset value. The December 2007 Order also found that, from 2000 through 2003, MSDW violated the Exchange Act by not making and keeping records of customer orders placed after the market close and orders placed for certain hedge fund customers in variable annuity sub-accounts. Without admitting or denying the SEC's findings, MS&Co. agreed to a censure, to cease and desist from future violations of the applicable provisions, to pay a penalty of approximately \$11.9 million, to disgorge profits related to the trading activity (including prejudgment interest) of approximately \$5.1 million and to retain an independent distribution consultant.

- In May 2005, MS&Co. and MSDW discovered that, from about January 1997 until May 2005, their order entry systems did not check whether certain secondary market securities transactions complied with state registration requirements known as Blue Sky laws. This resulted in the improper sale of securities that were not registered in 46 state and territorial jurisdictions. MS&Co. and MSDW conducted an internal investigation, repaired system errors, self-reported the problem to all affected states and the New York Stock Exchange, identified transactions which were executed in violation of the Blue Sky laws, and offered rescission to affected customers. MS&Co. settled the state regulatory issues in a multi-state settlement with the 46 affected state and territorial jurisdictions. Under the settlement, MS&Co. consented to a cease and desist order with, and agreed to pay a total civil monetary penalty of \$8.5 million to be divided among, each of the 46 state and territorial jurisdictions. The first order was issued by Alabama on March 19, 2008, and orders are expected to be issued by subsequent states over the coming months.
- On August 13, 2008, MS&Co. agreed on the general terms of a settlement with the NYAG and the Office of the Illinois Secretary of State, Securities Department ("Illinois") (on behalf of a task force of the North American Securities Administrators Association ("NASAA")) with respect to the sale of auction rate securities ("ARS"). MS&Co. agreed, among other things, to repurchase at par approximately \$4.5 billion of illiquid ARS held by certain clients of MS&Co. which were purchased prior to February 13, 2008. Additionally, MS&Co. agreed to pay a total fine of \$35 million. Final agreements were entered into with the NYAG on June 2, 2009 and with Illinois on September 17, 2009. The Illinois agreement serves as the template for agreements with other NASAA jurisdictions.
- On March 25, 2009, MS&Co. entered into a LAWEC with FINRA. FINRA found that, from 1998 through 2003, MSDW failed to reasonably supervise the activities of two Financial Advisors in one of its branches. FINRA found that these Financial Advisors solicited brokerage and investment advisory business from retirees and potential retirees of certain large companies by promoting unrealistic investment returns and failing to disclose material information. FINRA also held that MS&Co. failed to ensure that the securities and accounts recommended for the retirees were properly reviewed for appropriate risk disclosure, suitability and other concerns. MS&Co. consented, without admitting or denying the findings, to a censure, a fine of \$3 million, and restitution of approximately \$2.4 million plus interest to 90 former clients of the Financial Advisors.
- On June 8, 2016, the SEC entered into a settlement order with MSSB ("June 2016 Order") settling an administrative action. In this matter, the SEC found that MSSB willfully violated Rule 30(a) of Regulation S-P (17 C. F. R. § 248.30(a)) (the "Safeguards Rule"). In particular, the SEC found that, prior to December 2014, although MSSB had adopted written policies and procedures relating to the protection of customer records and information, those policies and procedures were not reasonably designed to safeguard its customers' personally identifiable information as required by the Safeguards Rule and therefore failed to prevent a MSSB employee, who was subsequently terminated, from misappropriating customer account information. In determining to accept the offer resulting in the June 2016 Order, the SEC considered the remedial efforts promptly undertaken by MSSB and MSSB's cooperation afforded to the SEC Staff. MSSB consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, and to pay a civil penalty of \$1,000,000.
- On January 13, 2017, the SEC entered into a settlement order with MSSB ("January 2017 Order") settling an administrative action. The SEC found that from 2009 through 2015, MSSB inadvertently charged advisory fees in excess of what had been disclosed to, and agreed to by, its legacy CGM clients, and, from 2002 to 2009 and from 2009 to 2016, MS&Co. and MSSB, respectively, inadvertently charged fees in excess of what was disclosed to and agreed to by their clients. The SEC also found that MSSB failed to comply with requirements regarding annual surprise custody examinations for the years 2011 and 2012, did not maintain certain client contracts, and failed to adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Investment Advisers Act of 1940 (the "Advisers Act"). The SEC found that, in relation to the foregoing, MSSB willfully violated certain sections of the Advisers Act. In determining to accept the offer resulting in the January 2017 Order, the SEC considered the remedial efforts promptly undertaken by MSSB. MSSB consented, without admitting or denying the findings, to a censure, to cease and desist from committing or causing future violations, to certain undertakings related to fee billing, books and records and client notices and to pay a civil penalty of \$13,000,000.
- On February 14, 2017, the SEC entered into a settlement order with MSSB settling an administrative action. The SEC found that from March 2010 through July 2015, MSSB solicited approximately 600 non-discretionary advisory accounts to purchase one or more of eight single inverse exchange traded funds ("SIETFs"), without fully complying with its internal written compliance policies and procedures related to these SIETFs, which among other things required that clients execute a disclosure notice, describing the SIETF's features and risks, prior to purchasing them, for MSSB to maintain the notice, and for subsequent related reviews to be performed. The SEC found that, despite being aware of deficiencies with its compliance and documentation of the policy requirements, MSSB did not conduct a comprehensive analysis to identify and correct past failures where the disclosure notices may not have been obtained and to prevent future violations from occurring. The SEC found that, in relation to the

foregoing, MSSB willfully violated section 206(4) of the Investment Advisers Act of 1940 and Rule 206(4)-7 thereunder. MSSB admitted to certain facts and consented to a censure, to cease and desist from committing or causing future violations, and to pay a civil penalty of \$8,000,000.

The Form ADV Part 1 of PM contains further information about its disciplinary history, and is available on request.

## Item 10: Other Financial Industry Activities and Affiliations

Morgan Stanley Parent is a financial holding company under the Bank Holding Company Act of 1956. Both Morgan Stanley Parent is a corporation whose shares are publicly held and traded on the New York Stock Exchange. Prior to June 28, 2013, PM was owned by a joint venture company which was indirectly owned 65% by Morgan Stanley Parent and 35% by Citi. On June 28, 2013, Morgan Stanley Parent purchased Citi's 35% interest in PM. Accordingly, PM is now a wholly owned indirect subsidiary of Morgan Stanley.

**Activities of Morgan Stanley Parent.** Morgan Stanley Parent is a global firm engaging, through its various subsidiaries, in a wide range of financial services including:

- securities underwriting, distribution, trading, merger, acquisition, restructuring, real estate, project finance and other corporate finance advisory activities
- merchant banking and other principal investment activities
- brokerage and research services
- asset management
- trading of foreign exchange, commodities and structured financial products and
- global custody, securities clearance services, and securities lending.

### A. Broker-Dealer Registration Status

PM has a related person that is registered as a broker-dealer (MSSB).

### B. Commodity Pool Operator, or Commodity Trading Adviser Registration Status

PM has related persons that are commodity pool operators (Ceres Managed Futures LLC, Morgan Stanley AIP GP LP, Morgan Stanley Investment Management Inc., Morgan Stanley Cayman Ltd., Morgan Stanley AIP Cayman GP Ltd., Morgan Stanley Alternative Investment Partners LP, Morgan Stanley AI GP LLC, and Morgan Stanley Strategies LLC) and commodity trading advisers (Ceres Managed Futures LLC, Morgan Stanley AIP GP LP, and Morgan Stanley Investment Management Inc.). For a full listing of affiliated investment advisers, please see the ADV Part 1.

### C. Material Relationships or Arrangements with Industry Participants

**Restrictions on Executing Trades.** As PM is affiliated with MSSB, MS&Co., and its affiliates, the following restrictions apply when executing client trades:

- MSSB and MS&Co. generally do not act as principal in executing trades for PM investment advisory clients (except to the extent permitted by a program and the law).
- Regulatory restrictions may limit the Fund's ability to purchase, hold or sell equity and debt issued by Morgan Stanley Parent and its affiliates.
- Certain regulatory requirements may limit the ability of PM affiliates to execute transactions through alternative execution services (e.g., electronic communication networks and crossing networks) owned by MSSB, MS&Co., Citi or their affiliates.

These restrictions may adversely impact client account performance.

**Different Advice.** PM and its affiliates may give different advice, take different action, receive more or less compensation, or hold or deal in different securities for any other party, client or account (including their own accounts or those of their affiliates) from the advice given, actions taken, compensation received or securities held or dealt for a PM client.

**Trading or Issuing Securities in, or Linked to Securities in, Client Accounts.** MSSB and its affiliates may provide bids and offers, and may act as principal market maker, in respect of the same securities held in client accounts. PM, its affiliates and employees may hold a position (long or short) in the same securities held in client accounts. PM and/or its affiliates are regular issuers of traded financial instruments linked to securities that may be purchased in client accounts. From time to time, the trading of PM, a manager or their affiliates – both for their proprietary accounts and for client accounts – may be detrimental to securities held by a client and thus create a conflict of interest. We address this conflict by disclosing it to you.

**Trade Allocations.** Affiliates of PM and other proprietary investment accounts may co-invest with the Funds in the Underlying Funds on a side-by-side basis from time to time. The Funds may, from time to time, compete with such other investors for access to

potential Underlying Funds. PM and its affiliates will seek to fairly and equitably allocate, based on the particular facts and circumstances, such investment opportunities between or among the Fund(s) and its affiliates and other proprietary investment accounts. However, such allocation will not necessarily be made pro rata based on available assets. There can be no assurance that a particular investment opportunity which comes to the attention of PM's affiliates will be referred to PM and the Funds. In addition, affiliates of PM may participate in additional excess investment opportunities offered by the Underlying Funds. PM believes that it may not be advisable to dispose of interests in the Underlying Funds, securities received in an in kind distribution from an Underlying Fund or securities purchased in these additional opportunities in "lock step," given that the Fund, such affiliate and such affiliate's clients may have differing investment objectives, liquidity requirements and regulatory constraints. To the extent that any dispositions are not made in lock step, they will be made under principles designed to avoid potential or actual conflicts of interest.

In addition, members of the Investment Selection Committees and other employees of PM and its affiliates may invest directly in the Underlying Funds.

PM and its affiliates have adopted policies and procedures imposing certain conditions and restrictions on transactions for accounts of employees. Such policies and procedures are designed to prevent, among other things, any improper or abusive conduct when potential conflicts of interest may exist with respect to clients, including the Funds.

***Services Provided to Other Clients.*** PM, and its affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that PM may recommend for purchase or sale by clients or are otherwise held in client accounts. PM, and its affiliates receive compensation and fees in connection with these services. PM believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account. Accordingly, it is likely that securities in an account will include some of the securities of companies for which PM, its affiliates, investment managers and their affiliates or an affiliate performs investment banking or other services.

***Restrictions on Securities Transactions.*** There may be periods during which PM may not be permitted to initiate or recommend certain types of transactions in the securities of issuers for which MSSB., or one of its affiliates is performing broker-dealer or investment banking services or have confidential or material non-public information. Furthermore, in certain investment advisory programs, PM may be compelled to forgo trading in, or providing advice regarding, Morgan Stanley Parent securities, and in certain related securities. These restrictions may adversely impact your account performance.

PM, MSSB and their affiliates may also develop analyses and/or evaluations of securities described in this Brochure, as well as buy and sell interests in securities on behalf of its proprietary or client accounts. These analyses, evaluations and purchase and sale activities are proprietary and confidential, and PM will not disclose them to clients. PM may not be able to act, in respect of clients' account, on any such information, analyses or evaluations.

PM and its affiliates are not obligated to effect any transaction that PM or any of its affiliates believe would violate federal or state law, or the regulations of any regulatory or self-regulatory body.

***Research Reports.*** MS&Co. does business with companies covered by their respective research groups. Furthermore, MS&Co., and its affiliates, and client accounts, may hold a trading position (long or short) in the securities of companies subject to such research. Therefore, MS&Co. has a conflict of interest that could affect the objectivity of its research reports

***Certain Trading Systems.*** PM may effect trades or securities lending transactions on behalf of client accounts through exchanges, electronic communication networks or other alternative trading systems ("Trading Systems"), including Trading Systems with respect to which PM or its affiliates may have a non-controlling direct or indirect ownership interest or right to appoint a board member or observer. If PM directly or indirectly effects client trades or transactions through Trading Systems in which PM or its affiliates have an ownership interest, these affiliates may receive an indirect economic benefit based on their ownership interest. In addition, subject at all times to its obligations to obtain best execution for its customers' orders, it is contemplated that PM will route certain customer order flow to its affiliates. Currently, affiliates of VS own equity interests (or interests convertible into equity) in certain Trading Systems or their parent companies, including BIDS Holdings LP and BIDS Holdings GP LLC (commonly known as "BIDS"); CHX Holdings Inc.; CHI-X Global Holdings LLC; National Stock Exchange of India; BM&F Bovespa; Miami International Holdings Inc.; Equilend Euroclear PLC; LCH.Clearnet Group Ltd.; Source Holding Ltd; Turquoise Global Holdings Ltd.; CJSCThe Moscow Interbank Currency Exchange Settlement House; CME; EUREX Bonds; ICE US Holding Company, LP; MuniCenter – The Debt Center, LLC; OTCDeriv Limited; TradeWeb Markets LLC; TIFFE – Tokyo Financial Futures Exchange; ERIS Exchange Holdings LLC; iSWAP Limited; CME/CBOT/NYMEX; Dubai Mercantile Exchange; European Energy Exchange; Intercontinental Exchange;; Tokyo Commodities Exchange;; Bombay Stock Exchange; Tokyo Financial Exchange; Japan Securities Clearing Corporation; Japan Securities Depository Center Inc.; and Japan Securities Clearing Corporation.

The Trading Systems on which PM trades or effects security lending transactions for Client accounts and in which affiliates own interests may change from time to time. You may contact PM for an up-to-date list of Trading Systems in which MSSB or its affiliates own interests and on which MSSB and/or MS&Co. trade for client accounts.

Certain Trading Systems offer cash credits for orders that provide liquidity to their books and charge explicit fees for orders that extract liquidity from their books. From time to time, the amount of credits that PM receives from one or more Trading Systems may exceed the amount that is charged. Under these limited circumstances, such payments would constitute payment for order flow.

Certain Trading Systems through which PM may directly or indirectly effect client trades execute transactions on a “blind” basis, so that a party to a transaction does not know the identity of the counterparty to the transaction. It is possible that an order for a client account that is executed through such a Trading System could be automatically matched with a counterparty that is (i) another investment advisory or brokerage client of PM or one of its affiliates or (ii) PM or one of its affiliates acting for its own proprietary accounts.

***PM Affiliate in Underwriting Syndicate: Other Relationships with Security Issuers.*** If an affiliate of PM is a member of the underwriting syndicate from which a security is purchased, we or our affiliates may directly or indirectly benefit from such purchase.

Newly issued shares of securities purchased for a client’s account normally provide for a fee, called a “reallowance fee,” to be paid by the issuing corporation to the underwriters of the securities which will be deemed additional compensation to us, if received by us. PM and/or its affiliates have a variety of relationships with, and provide a variety of services to, issuers of securities recommended for client accounts, including investment banking, corporate advisory, underwriting, consulting, and brokerage relationships. As a result of these relationships with an issuer, PM or its affiliates may directly or indirectly benefit from a client’s purchase or sale of a security of the issuer. For example, PM or its affiliates may provide hedging services for compensation to issuers of structured investments (such as structured notes) recommended for client accounts. In such a case, PM or its affiliates could benefit if a client account purchased such an instrument, or sold such an instrument to another purchaser in lieu of selling or redeeming the instrument back to the issuer, as such transactions could result in the issuer of the instrument continuing to pay PM or its affiliates fees or other compensation for the hedging services related to such instrument. Similarly, if the hedging service with respect to such an instrument is not profitable for PM or its affiliates, PM or its affiliates may benefit if PM’s client accounts holding such instruments sold or redeemed them back to the issuer. We address these conflicts by disclosing them to you.

***Other Business With Certain Firms.*** Certain investment management firms (which may include Managers) do other business with MSSB or its affiliates.

***Related Investment Advisors and Other Service Providers.*** PM has related persons that are registered investment advisers in various investment advisory programs (including Morgan Stanley Investment Management Inc., Morgan Stanley Investment Management Limited and Consulting Group Advisory Services LLC). If a Fund invests its assets and uses an affiliated firm to manage its account, PM and its affiliates earn more money than if a Fund uses an unaffiliated firm.

Morgan Stanley Investment Management Inc. serves in various advisory, management, and administrative capacities to open-end and closed-end investment companies and other portfolios (some of which are listed on the NYSE). Morgan Stanley Services Company Inc., its wholly owned subsidiary, provides limited transfer agency services to certain open-end investment companies.

Morgan Stanley Distribution Inc. serves as distributor for these open-end investment companies, and has entered into selected dealer agreements with MSSB and affiliates. Morgan Stanley Distribution Inc. also may enter into selected dealer agreements with other dealers. Under many of these agreements, MSSB and affiliates, and other selected dealers, are compensated for sale of fund shares to clients on a brokerage basis, and for shareholder servicing (including pursuant to plans of distribution adopted by the investment companies pursuant to Rule 12b-1 under the Investment Company Act of 1940).

Related persons of PM act as a general partner, administrative agent or special limited partner of a limited partnership or managing member or special member of a limited liability company to which such related persons serve as adviser or sub-adviser and in which clients have been solicited in a brokerage or advisory capacity to invest. In some cases, the general partner of a limited partnership is entitled to receive an incentive allocation from a partnership.

See Item 5.C above for a description of cash sweep investments managed or held by related persons of PM.

As noted above, the Underlying Funds in which the Funds invest are selected by PM through the respective Investment Selection Committees, the members of which are drawn from certain investment resources of PM’s affiliates (see response to Item 4).

PM also may share resources, employees and management, as well as investment ideas and opportunities, with affiliated investment advisers engaged in similar activities.

MSSB, which is an affiliate of PM, may serve as placement agent with respect to interests in the Funds.

Certain affiliates of PM may invest directly in an Underlying Fund on a side-by-side basis with a Fund. Such investment may benefit the Fund by providing access to an Underlying Fund and by allowing the Fund to leverage off of PM’s affiliates’ expertise in evaluating and negotiating an investment in the Underlying Fund. It also may give rise to potential conflicts of interest (see response to Item 9).

If a designated Underlying Fund holds its closing prior to the initial closing of a Fund, an affiliate of PM may make a commitment to the designated Underlying Fund on behalf of such Fund. Under such circumstances, the affiliate of PM subsequent to the initial closing of the Fund will transfer the interest so acquired to the Fund in exchange for payment by the Fund to such affiliate of PM of the amounts funded by such affiliate of PM plus interest. Prior to the initial closing of a Fund, a Fund may also purchase interests directly in an Underlying Fund. In order to make such a purchase, the Fund may borrow money from PM or an affiliate. PM or its affiliate will charge the Fund interest on such a loan. In order to lend money to the Fund, PM or its affiliate may borrow money at a lower interest rate than that charged to the Fund. By executing the subscription agreement to invest in a Fund, each investor consents to such transfer or purchase of interests and to the Fund's payment of a stated rate of interest.

As noted above in the response to Item 1, PM serves as the investment adviser of several investment partnerships organized by CGMI (or its predecessors) and other members of Citigroup to offer qualified investors the opportunity to invest in private equity investment "fund of funds."

#### **D. Material Conflicts of Interest**

**General.** Potential conflicts of interest are fully disclosed in each Fund's Confidential Private Offering Memorandum. Each Fund's Confidential Private Offering Memorandum provides that by acquiring an interest in the Fund, each investor will be deemed to have acknowledged the existence of any such actual and potential conflicts of interest and to have waived any claim with respect to any liability arising from the existence of any such conflict of interest.

On any issue involving actual conflicts of interest, PM will be guided by its good faith judgment as to a Fund's best interests. In the event that any matter arises that PM determines in its good faith judgment constitutes an actual conflict of interest between the Fund and PM's affiliates, under the Fund's applicable agreements PM may refer the matter to the Investment Selection Committee for resolution. PM may also take such other actions as it may deem necessary or appropriate to ameliorate the conflict. These actions may include disposing of the security held by the Fund giving rise to the conflict of interest, or appointing an independent fiduciary.

PM's affiliates, including MS and MSSB, engage or may engage in a broad spectrum of activities, including financial advisory activities, and have extensive investment activities that are independent from, and may from time to time conflict with, those of the Funds or the Underlying Funds. In the future, there might arise instances where the interests of such affiliates conflict with the interests of the Underlying Funds and their investors, including the Funds. Certain affiliates of PM will engage in transactions with, and may provide services to, portfolio companies and potential portfolio companies of the Underlying Funds. Certain affiliates, including MS, engage in activities in the normal course of their investment banking businesses which may conflict with the interests of a Fund's investors. Certain affiliates of PM may provide services to, invest in, advise, sponsor and/or act as investment manager to investment vehicles and other persons or entities (including prospective investors in the Underlying Funds) which may have similar structures and investment objectives and policies to those of the Underlying Funds and which may compete with the Underlying Funds for investment opportunities and which may co-invest with the Underlying Funds in certain transactions. In addition, certain affiliates of PM and their respective clients may themselves invest in securities that would be appropriate for the Underlying Funds and may compete with the Underlying Funds for investment opportunities.

There can be no assurance that an investment opportunity which comes to the attention of PM's affiliates will be appropriate for the Underlying Funds or will be referred to the Underlying Funds. None of such affiliates (including MS and MSSB) is obligated to refer any investment opportunity to the Underlying Funds.

**Conflicting Client Relationships.** Certain of PM's affiliates have pre-existing relationships with a significant number of corporations which may be potential portfolio companies of the Underlying Funds. PM may take into consideration these relationships in its management of a Fund, and the Underlying Funds may also take these relationships into consideration. For instance, there may be certain investments that PM will not undertake on behalf of the Fund in view of such relationships.

**Inside Information.** From time to time, certain of PM's affiliates may come into possession of inside information concerning specific companies, although internal information barrier structures are in place to prevent such exchanges of information. Under applicable securities laws this may limit the flexibility of an Affiliated Underlying Fund to buy or sell portfolio securities issued by such company. A Fund's investment flexibility may be constrained as a consequence of PM's inability to use such information for investment purposes.

**Investment Banking Relationships.** Certain of PM's affiliates may receive investment banking fees from portfolio companies and other parties engaged in transactions in which the Underlying Funds invest. Such fees would be paid to such affiliates for providing services in connection with: (i) the acquisition, disposition or sale of companies in which the Underlying Funds invest; (ii) equity or debt financings; or (iii) other investment banking services. The arrangement between such affiliates and such parties will be made on an arm's length basis consistent with industry practices.

**Conflicting Representations of Buyers.** Certain of PM's affiliates may represent potential buyers of businesses through their merger and acquisition activities. When such an affiliate represents a buyer seeking to acquire a company, an Affiliated Underlying Fund will be limited or precluded during the pendency of such assignment from investing in or selling securities issued by such company.

**Conflicting Representations of Sellers.** In the regular course of business, certain of PM's affiliates may be engaged to act as financial adviser to a company in connection with the sale of such company, or subsidiaries or divisions thereof. The compensation provided to such affiliates for such activities will be typically based upon realized consideration and is expected to be contingent, in substantial part, upon closing. Such affiliates may be precluded from offering such company to any Affiliated Underlying Funds if the seller has required such affiliates to act exclusively on its behalf. Additionally, there may be seller assignments in which the seller permits the Underlying Funds to act as a buyer. If an Affiliated Underlying Fund were to be that buyer, certain conflicts of interest would be inherent in the situation, including those involved in negotiation of a purchase price.

**Restructuring Activities.** Certain of PM's affiliates may be engaged to act as financial adviser to financially troubled companies in connection with the restructuring of their capital structures or in connection with their bankruptcy. The compensation provided to such affiliates for such activities is generally based upon the successful completion of a restructuring, which may include raising funds for the purchase of existing securities or for an equity infusion. If any Affiliated Underlying Funds were investors in such a company, certain conflicts of interest would be inherent in the situation, including those involved in negotiation of a purchase price.

**Principal Investments.** There may be situations in which the interests of a Fund or one or more of the Underlying Funds in a portfolio company may conflict with the interests of one or more general accounts of PM's affiliates or accounts managed by such affiliates. This may occur because these accounts hold public and private debt and equity securities of a large number of issuers that may be or become portfolio companies, or from whom portfolio companies may be acquired. PM believes that the participation of its affiliates in the capital markets is a significant factor in ensuring its continuing access to Underlying Funds for investment by the Fund, and this participation is believed by PM to be, on balance, beneficial to the Funds.

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

### **A. Code of Ethics**

PM is subject to a Code of Ethics that memorializes PM's fundamental duties as a fiduciary. The Code of Ethics includes standards of business conduct and incorporates a personal investments policy. Each employee receives a copy of the Code of Ethics upon hiring and annually thereafter and must sign an attestation that such employee has read and understood such Code of Ethics.

The Code of Ethics requires each employee to prioritize the interests of the client, to avoid conflicts of interest, to never abuse such employee's position of trust and responsibility and to comply with all federal securities laws. Employees are required to safeguard material non-public information in such employee's possession and are prohibited from using such information to such employee's personal benefit. Each employee must treat information belonging to clients as confidential and take care to protect such information from unauthorized access by third parties.

To avoid any potential conflict of interest involving personal transactions, PM requires every member of the Investment Committee ("IC Members") to obtain pre-approval for any personal securities transactions. IC Members are also subject to a restricted list and blackout periods. In addition, access persons (defined as employees with access to non-public information regarding PM's purchase or sale of securities and directors, officers and partners) will (i) upon starting employment, provide a complete record of his or her securities holdings to the Compliance Officer and annually thereafter and (ii) provide quarterly reports of personal securities transactions within 30 days following the end of the quarter, unless such information has been provided through other means. All IC Members are required to inform the Compliance Officer of any violation of the Code of Ethics that comes to his or her notice.

A copy of PM's Code of Ethics will be provided to any client or prospective client upon request.

See Items 10.C and D. above, for a description of Conflicts of Interest.

### **B. Securities That You or a Related Person Has a Material Financial Interest**

### **C. Investing in Securities That You or a Related Person Recommends to Clients or has a Financial Interest**

Please see Item 10C for a discussion regarding the following items:

- ***Trading or Issuing Securities in, or Linked to Securities in, Client Accounts.***
- ***Restrictions on Securities Transactions.***
- ***Research Reports.***
- ***Conflicts Related to Citigroup and MS Research.***
- ***Transaction-Related Agreements with MS&Co., Citi and Affiliates.***

### **D. Conflicts of Interest Created by Contemporaneous Trading**

Please see the paragraph entitled "***Different Advice***" located in Item 10C.

## Item 12: Brokerage Practices

### A. Factors in Selecting or Recommending Broker-Dealers for Client Transactions

Funds generally invest directly in an Underlying Fund, and PM will not utilize or pay any broker or dealer in connection with an investment in an Underlying Fund, although affiliates of PM may be compensated by an Underlying Fund and the manager thereof for placing assets in the Underlying Fund and for other reasons.

PM may utilize the services of a broker or dealer, including affiliates of PM, in investing in Temporary Investments or in selling securities received from an Underlying Fund in an in kind distribution. In selecting brokers or dealers to execute transactions on behalf of the Fund, PM will consider factors it deems relevant, including, but not limited to, the breadth of the market in the security, the price of the security, the financial condition and execution capability of the broker or dealer and the reasonableness of the commission, if any, for the specific transaction and on a continuing basis.

#### 1. Research and Other Soft Dollars

PM generally is authorized, under the terms of its Investment Advisory Agreement with each Fund, to consider the brokerage and research services provided to the Fund and/or other accounts over which PM or its affiliates exercise investment discretion. However, PM does not currently have any “soft dollar” arrangements pursuant to which products, research and services are given to PM or an affiliate by brokers in return for effecting Fund transactions through such brokers.

#### 2. Brokerage for Client Referrals

PM does not consider whether it or an affiliate will receive client referrals from a broker-dealer or third party when selecting or recommending broker-dealers.

#### 3. Directed Brokerage

PM does not offer Funds directed brokerage as an option to pay their investment advisory fees.

### B. Aggregation of Securities Transactions for Clients

PM does not aggregate the purchase or sale of securities for the Funds.

## Item 13: Review of Accounts

Please see the response to Item 4 for a description of the monitoring and review of the Fund's investments in Underlying Funds.

PM's clients are the Funds, and not the Funds' underlying investors. PM will provide each Fund's general partner with periodic reports concerning the Fund's investment in Underlying Funds and Temporary Investments.

While the Funds' underlying investors are not advisory clients of PM and will not receive reports from PM as advisory clients, such investors will be provided by the Funds with annual audited financial statements of the applicable Fund and periodic investor reports.

## Item 14: Client Referrals and Other Compensation

MSSB, which is an affiliate of PM, may act as placement agents with respect to interests in the Funds. PM may pay a fee, out of its own resources, to placement agents responsible for subscriptions to the Funds. The placement agents will pay a portion of such placement agent fees to MSSB Financial Advisors and other placement agent representatives whose clients purchase interests in the Fund. The placement agents may engage, and pay (to the extent permitted under applicable state and federal law) subplacement or finder's fees to, other financial institutions to assist them in placing interests in the Funds.

## Item 15: Custody

PM's clients are the Funds, and not the Funds' underlying investors and PM does not act as custodian to the Funds. PM will provide each Fund's general partner with periodic reports concerning the Fund's investment in Underlying Funds and Temporary Investments.

While the Funds' underlying investors are not advisory clients of PM and will not receive reports from PM as advisory clients, the Funds will provide such investors with annual audited financial statements of the applicable Fund and periodic investor reports.

## Item 16: Investment Discretion

PM has the authority to determine, without obtaining specific client consent, the Underlying Funds and the Temporary Investments (see response to item 1 above) in which a Fund will invest, subject in each case to the limitations and restrictions described in the Fund's Confidential Private Offering Memorandum and governing documents. A Fund may receive distributions from an Underlying Fund in kind in the form of marketable securities of portfolio companies, some of which may be restricted securities. With respect to such distributions, PM has the discretion to sell such securities and distribute the cash proceeds, distribute such securities in kind or offer the Fund's investors the option, subject to PM's consent, either to receive the securities in kind or to have the Fund sell them and distribute the cash proceeds. While PM will use reasonable efforts either to sell or to distribute marketable securities promptly, a Fund's investors will bear any associated costs or market risks during the disposition process. Affiliates of PM and other proprietary investment accounts may co-invest with the Funds in the Underlying Funds on a side-by-side basis from time to time. The Funds may, from time to time, compete with such other investors for access to potential Underlying Funds. PM and its affiliates will seek to fairly and equitably allocate, based on the particular facts and circumstances, such investment opportunities between or among the Fund(s) and its affiliates and other proprietary investment accounts. However, such allocation will not necessarily be made pro rata based on available assets. There can be no assurance that a particular investment opportunity which comes to the attention of PM's affiliates will be referred to PM and the Funds.

In the event that two or more Funds advised by PM and/or funds advised by its affiliate, VS, have cash available for investment at the same time and an investment opportunity arises that may be appropriate for each such fund but whose availability to PM and its affiliate is limited, PM and its affiliate will seek to fairly and equitably allocate such investment opportunity between or among such funds taking into account such factors as each fund's investment objective, industry and sector focus, size and available cash. Consideration may also be given to whether one of the advisers was primarily responsible for gaining access to the investment opportunity.

Funds generally invest directly in an Underlying Fund, and PM will not utilize or pay any broker or dealer in connection with an investment in an Underlying Fund, although affiliates of PM may be compensated by an Underlying Fund and the manager thereof for placing assets in the Underlying Fund and for other reasons.

PM may utilize the services of a broker or dealer, including affiliates of PM, in investing in Temporary Investments or in selling securities received from an Underlying Fund in an in kind distribution. In selecting brokers or dealers to execute transactions on behalf of the Fund, PM will consider factors it deems relevant, including, but not limited to, the breadth of the market in the security, the price of the security, the financial condition and execution capability of the broker or dealer and the reasonableness of the commission, if any, for the specific transaction and on a continuing basis. PM generally is authorized, under the terms of its Investment Advisory Agreement with each Fund, to consider the brokerage and research services provided to the Fund and/or other accounts over which PM or its affiliates exercise investment discretion. However, PM does not currently have any "soft dollar" arrangements pursuant to which products, research and services are given to PM or an affiliate by brokers in return for effecting Fund transactions through such brokers.

## Item 17: Voting Client Securities

PM does not accept proxy-voting authority on behalf of the Funds and their investments in the Underlying Funds. Funds may elect PM to vote proxies or they may vote on their own and PM will send the proxy materials to the Funds. Funds may contact PM with questions about a particular solicitation. Please note that PM does not provide advice or take action with respect to legal proceedings (including bankruptcies) relating to the securities in your account, except to the extent required by law.

## Item 18: Financial Information

PM is not required to include a balance sheet in this Brochure because PM does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

PM does not have any financial conditions that are reasonably likely to impair its ability to meet its contractual commitments to clients.

PM and its predecessors have not been the subject of a bankruptcy petition during the past ten years.

## Item 19: Requirements for State-Registered Adviser

This item is not applicable to PM.