

## Part 2A of Form ADV: Firm Brochure

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MSREF V, L.L.C.

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March 27, 2020

This Brochure provides information about the qualifications and business practices of MSREF V, L.L.C. (the “Adviser”). If you have any questions about the contents of this Brochure, you should contact Morgan Stanley Real Estate Investing Investor Services at (212) 761-7160 or email [msreinvestor@morganstanley.com](mailto:msreinvestor@morganstanley.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

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

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

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## **Item 2 – Material Changes**

We provide this Brochure to our clients as well as limited partners of the pooled investment vehicles that we advise (“Limited Partners”). The following summarizes the material changes in our Brochure.

Since the last annual update of this Brochure, dated March 29, 2019, MSREF V International reached the end of its formal dissolution period but is continuing to seek an orderly liquidation of any assets that it was permitted to retain in order to complete any construction or improvement past such dissolution period’s formal end.

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

Our Brochure may be requested by contacting Morgan Stanley Real Estate Investing Investor Services at (212) 761-7160 or email [msreinvestor@morganstanley.com](mailto:msreinvestor@morganstanley.com).

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#### **Item 4 – Advisory Business**

MSREF V, L.L.C. (the “Adviser”) was formed in 2004 and registered with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) in 2005.

The Adviser is a wholly owned indirect subsidiary of Morgan Stanley (collectively, with its affiliates, “Morgan Stanley”).

As of December 31, 2019, the Adviser had approximately \$199,838,350<sup>1</sup> of assets under management, all of which are managed on a discretionary basis.

The Adviser provides real estate-related investment advisory services to the partnerships that comprise MSREF V International<sup>2</sup> that are designed to seek capital appreciation principally through privately negotiated real estate opportunities. MSREF V International is referred to herein as the “Fund”. MSREF V International reached the end of its dissolution period at the end of 2019, but its general partner is continuing to seek an orderly liquidation of any assets that it was permitted to retain in order to complete any construction or improvements past such dissolution period’s formal end.

In providing its services to its advisory client, the Adviser formulates the client’s investment objectives, directs and manages the investment and reinvestment of assets, and provides reports to investors. The Adviser manages the assets of its advisory client in accordance with the terms of the governing documents applicable to the client.

The Adviser’s affiliation with Morgan Stanley, including Morgan Stanley Real Estate Investing, the real estate investing business of Morgan Stanley, together with its subsidiaries and the supporting units dedicated to the real estate investing business (collectively, “MSREI”), provides it with access to valuable relationships, market knowledge, and financial and operating expertise. Morgan Stanley has been engaged in the real estate business since 1969 and the investing businesses employ professionals worldwide who have demonstrated a proven ability to source deals, structure complex transactions and identify multiple exit strategies which enhance the Fund’s ability to meet its return objectives. The Fund is no longer investing in new investments, but the Adviser previously targeted investments in a broad range of real estate asset classes for the Fund from multiple sources including the following categories: (i) corporate spin-offs, liquidations and sales of real estate-related subsidiaries; (ii) publicly traded or privately held real estate operating companies; (iii) direct real estate assets; and (iv) real estate developments.

The activities of the Adviser described in this Brochure may be performed by the Adviser or by one of its affiliates that acts as a general partner or managing member of the applicable client.

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<sup>1</sup> Real Estate Assets Under Management (RE AUM) represents gross fair market value of the Real Estate assets managed by the Adviser on behalf of its clients, presented at direct ownership interest. RE AUM for certain minority interests represents the clients’ equity investment in the entity.

<sup>2</sup> As of October 23, 2017 the co-investing partnerships that comprise MSREF V U.S. ceased operations.

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## **Item 5 – Fees and Compensation**

Certain fees described herein are subject to negotiation with investors.

### **Management Fees**

The Adviser or a related person of the Adviser is paid a quarterly (annually in the case of certain large investors) management fee (payable in arrears) based on invested capital, which is funded by the Limited Partners and ranges from 0.75% to 2.0% (see also “Co-Investments” below for additional information on the fees and expenses relating to co-investments).

### **Annual Fees and Upfront Placement Fees**

The general partner is paid an annual fee by Limited Partners of certain feeder funds equal to 0.50% of such Limited Partner’s invested capital, which fee is payable in arrears and is for the account of one or more Morgan Stanley affiliates that acted as placement or distribution agents with respect to the interests in these funds. Broker-dealers who are affiliates of the Adviser acted as placement agents to assist in the placement of the Fund’s interests. Any placement fee not payable by the Adviser is in addition to a Limited Partner’s capital commitment. The amount of any placement fee is described in the placement agent’s point of sale letter. However, any of the placement agents or distributors may, in their sole discretion, waive the placement fees paid by a Limited Partner, including a Limited Partner that is an employee or affiliate of the general partner of the Fund and/or Morgan Stanley.

The prospect of receiving, or the receipt of, annual fees and upfront placement fees as described above by affiliates of the general partner may have provided such affiliates with an incentive to favor subscriptions for interests in the Fund over subscriptions for, or sales of, interests in funds (or other fund investments) with respect to which such affiliates do not receive such compensation or receive lower levels of compensation, creating a potential conflict of interest for such affiliates.

See also “Affiliates Acting as Fundraising Broker-Dealers” in Item 11 below.

### **Referral Fees**

Affiliates of the Adviser may refer or introduce a counterparty to the Fund in respect of certain transactions. Such affiliates may receive compensation (e.g., finder’s fee) from the Fund as opposed to the counterparty.

### **Acquisition Fees**

The Adviser or a related person of the Adviser was entitled to receive an acquisition fee payable by the Fund with respect to any acquisition in an amount equal to 1.0% of the gross value of the consideration paid (or obligated to be paid) for each investment; provided that such fees did not exceed 5.0% of the Limited Partners’ capital contributions funded (or obligated to be funded) in respect of the relevant investment. Certain Limited Partners were entitled to receive a rebate of 50% of their allocable share of acquisition fees, depending on their commitment size.

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Acquisition fees were generally payable on the date of closing of the acquisition to which such acquisition fee relates.

### **Carried Interest**

Save as indicated below, the general partner of the Fund is also entitled to a distribution of up to 20% of a Limited Partner's gain from an investment, which fee complies with the provisions of Rule 205-3 under the Advisers Act; provided that the remaining allocations to the Limited Partner are sufficient to give the Limited Partner a 9% annual compounded internal rate of return on that investment. In addition, the Fund has a specific fund designed to admit only Morgan Stanley current and former employees (and certain other permissible related investors) (each, an "Employee Fund"). With respect to each Employee Fund, absent certain circumstances relating to the termination of employment of a Limited Partner with Morgan Stanley, the general partner's distribution entitlement is generally calculated at 10% instead of 20%.

Specific Limited Partners are entitled to a clawback of all or a portion of the general partner's carried interest in certain circumstances (see also "Co-Investments" below for additional information on the fees and expenses relating to co-investments).

### **Expenses**

The Fund may also bear certain out-of-pocket expenses incurred by the Adviser and/or its affiliates in connection with the services provided to the Fund. The payment of such expenses by the Fund does not represent a source of profit for the Adviser, but rather is a reimbursement of actual costs initially paid by the Adviser (or its affiliates) and subsequently passed through to the Fund. The most common expenses include (i) expenses incurred in connection with identifying, evaluating, structuring and negotiating any potential Fund investment (including reverse break-up, termination and other similar fees payable by the Fund, deposits and commitment fees) and the acquisition, holding, sale, proposed sale or valuation of the Fund investments; and (ii) ordinary administrative expenses, including fees of auditors, attorneys, appraisers and other professionals. The Adviser and its affiliates may provide the Fund with certain data processing, legal or insurance purchasing or administrative services (but excluding accounting services) which would otherwise be performed for the Fund by third parties and, in such event, the Adviser and its affiliates may be reimbursed by the Fund at the lesser of (i) the cost of providing such services (including reasonable employment costs and related overhead allocable thereto) and (ii) the amount that would be payable by the Fund if services of equal quality were provided by third parties on an arm's-length basis, except that such reimbursements will not be permitted with respect to appraisal or valuation services.

### **Co-Investments**

The terms of a co-investment applicable to one co-investor may be different than the terms applicable to another co-investor, including that certain co-investors may be required to pay a carried interest and/or management fees while other co-investors (including affiliates of Morgan Stanley) may not be required to pay such amounts. The Adviser or the general partner may or may

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not charge management fees, one time funding fees, administrative fees and/or carried interest in respect of co-investments, subject to the terms of any applicable agreements with investors. In addition, Morgan Stanley may, in certain circumstances, be incentivized to offer certain potential co-investors (including, by way of example, as a part of an overall strategic relationship with Morgan Stanley) priority to co-investment opportunities or to co-invest on more favorable terms than other potential co-investors due to the amount of performance-based compensation or management fees paid by the co-investor receiving the priority allocation or better terms (as well as any additional discounts or rebates avoided by allocating co-investments to such co-investor) or other aspects of such co-investor's relationship with Morgan Stanley. The allocation of any co-investment opportunities may directly or indirectly benefit the Adviser or the general partner as a result of, among other things, the receipt of any such fees or carried interest, capital commitments to the Fund and capital commitments to other Affiliated Investment Accounts (as hereinafter defined). Co-investors in one or more specific investments will not necessarily be required to share in broken-deal expenses that are paid by the Fund, either with respect to a co-investment opportunity that is not consummated or with respect to other potential investments that may be offered to the Fund. The performance of co-investments is not aggregated with that of the Fund, including for purposes of determining the general partner's carried interest or the Adviser's management fees under the relevant partnership agreement. See also "Allocation of Co-Investment Opportunities" in Item 11 below for additional information on the allocation of co-investment opportunities.

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

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

The Confidential Offering Memorandum for the Fund includes further details on fees and compensation and related matters.

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

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

Please see Item 5 for further information regarding performance-based fees charged by the Adviser.



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## **Item 7 – Types of Clients**

The Adviser provides portfolio management services to pooled investment vehicles. These pooled investment vehicles are not subject to regulation under the Investment Company Act of 1940 (the “Investment Company Act”). Generally, Fund investors must have invested a minimum of \$10 million, unless otherwise approved. As regards certain feeder funds, investors must generally have invested a minimum of \$1 million, unless otherwise approved. In addition, with respect to the Employee Funds, investors must generally have invested a minimum of \$100,000, unless otherwise approved.

In addition, Limited Partner interests in the Fund were able to be purchased only by certain eligible investors who are “accredited investors” as defined in Regulation D of the Securities Act of 1933, as amended (the “Securities Act”), and “qualified purchasers” for purposes of Section 3(c)(7) of the Investment Company Act. In the case of the Employee Funds, interests have been offered and sold to investors who are “accredited investors” as defined in Regulation D of the Securities Act and in accordance with the requirements of an exemptive order under the Investment Company Act received by Morgan Stanley from the SEC in April 2000.

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

### **Investment Strategies**

The Fund's investment period has terminated and it is no longer making investments. The Fund's investment objective is to seek capital appreciation principally through privately negotiated real estate opportunities. The Fund has made investments in real estate opportunities, including, among other things, investments in publicly traded or privately held real estate operating companies, programmatic joint ventures, corporate divestitures, portfolios of real estate and real estate loans held by financial institutions (and, subject to certain limitations, non-real estate loans), community/residential developments, debt instruments, commercial developments and individual real estate assets. From time to time, the Adviser may have caused the Fund to invest cash held by the Fund in temporary investments ("Temporary Investments") on a short-term basis pending distribution to the Fund's investors, investment in long-term equity investments, or payments of expenses or other obligations of the Fund. Temporary Investments have taken the form of warrants, corporate debt securities, commercial paper and certificates of deposit. Capital invested in Temporary Investments and any gains thereon are generally distributed (or deemed distributed) to Fund investors in proportion to their capital contributions to each such investment, and will not be subject to the payment of carried interest to any entity or the requirement of an internal rate of return to Fund investors. The Fund's primary focus is to dispose of its current assets and make distributions to the Limited Partners.

The Adviser's main sources of information and investment opportunities have been contacts with employees of Morgan Stanley, a public company listed on the New York Stock Exchange (of which the Adviser is a wholly-owned subsidiary), industry executives and established business relationships. Regional investment teams regularly monitor the value of the Fund's investments, assess the impact of various macro and microeconomic shifts on investments and make recommendations to MSREI on strategies to maximize the value of investments.

### **Methods of Analysis**

#### ***Management of Risk***

After completing an acquisition, the Adviser considers further steps to manage the on-going risk, including managing interest rate and foreign exchange rate exposure, monitoring debt duration and mix of maturities, the sale of properties with limited upside potential, global insurance policies and appropriate economic incentives for property managers, joint venture partners and corporate executives.

#### ***Asset Management***

The Adviser oversees the Fund's investments utilizing strict operational and accounting controls in conjunction with periodic site inspections, while corporate management teams, joint venture partners and other third-party property managers are responsible for the day-to-day operations of each investment. The entities responsible for the day-to-day operations of specific investments

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are compensated in a manner intended to ensure that the interests of these entities are aligned with those of the Fund. Generally, this is achieved through equity participation in the investment and compensation linked to the success of the investment.

In connection with the Fund's asset management program, the Adviser supervises and oversees the management of each investment, reviewing the operational discussions, joint venture decisions and third-party property managers with the objective of maximizing the overall performance of each investment. Reporting on the performance of each investment is integral to the Fund's asset management program. Status reports on the Fund's investments are prepared by the separate corporate management teams, joint venture partners and third-party property managers for review by the Adviser. In addition, an operating budget for each property and investment is prepared for review and approval by the Adviser.

A group of senior MSREI team executives comprised of investment and asset management professionals reviews the operations of the Fund's investments and approves or disapproves any strategic operating decisions regarding a property or investment. These senior executives recommend disposition and recapitalization strategies based on the ongoing performance of specific investments and changing market conditions.

### **Risk Considerations Associated with Investing - In General**

The following is a non-exhaustive description of risks associated with investments generally and/or may apply to one or more types of investment technique.

- **General Economic and Market Risks.** The Fund's investments 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 Fund's investments. Unexpected volatility or lack of liquidity, such as the general market conditions that have prevailed recently, could impair the Fund's profitability or result in its suffering losses. Economies and financial markets throughout the world are becoming increasingly interconnected, which increases the likelihood that events or conditions in one country or region will adversely impact markets or issuers in other countries or regions.
- **Cyber Security-Related Risks.** The Adviser is susceptible to cyber security risks that include, among other things, theft, unauthorized monitoring, release, misuse, loss, destruction or corruption of confidential and highly restricted data; denial of service attacks; unauthorized access to relevant systems, compromises to networks or devices that the Adviser and its service providers, if applicable, use to service the Fund; or operational disruption or failures in the physical infrastructure or operating systems that support the Adviser or its service providers, if applicable.

Cyber-attacks against, or security breakdowns of, the Adviser or its service providers, if applicable, may adversely impact the Adviser and the Fund, potentially resulting in, among other things, financial losses; the Adviser's inability to transact business on

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behalf of the Fund; violations of applicable privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs; and/or additional compliance costs. The Adviser may incur additional costs related to cyber security risk management and remediation. In addition, cyber security risks may also impact portfolio companies in which the Adviser invests on behalf of the Fund, which may cause the Fund's investment in such portfolio companies to lose value. There can be no assurance that the Adviser or its service providers, if applicable, will not suffer losses relating to cyber-attacks or other information security breaches in the future. While the Adviser has established business continuity and risk management systems seeking to address system breaches or failures, there are inherent limitations in such plans and systems.

- **Coronavirus and Public Health Emergencies.** As of the date of this brochure, there is an outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a "Public Health Emergency of International Concern." The outbreak of COVID-19 has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity, debt, derivatives and commodities markets. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting (or strongly encouraging) quarantines, prohibitions on travel, the closure of offices, businesses, schools, retail stores, restaurants, hotels, courts and other public venues, and other restrictive measures designed to help slow the spread of COVID-19. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on transportation, hospitality, tourism, entertainment and other industries. Moreover, with the continued spread of COVID-19, governments and businesses are likely to take increasingly aggressive measures to help slow its spread. For this reason, among others, as COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess.

Any public health emergency, including any outbreak of COVID-19, SARS, H1N1/09 flu, avian flu, other coronavirus, Ebola or other existing or new epidemic diseases, or the threat thereof, could have a significant adverse impact on the Fund and its investments and could adversely affect the Fund's ability to fulfill its investment objectives.

The extent of the impact of any public health emergency on the Fund and its investments' operational and financial performance will depend on many factors, including the duration and scope of such public health emergency, the scope of any related travel advisories and restrictions implemented, the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence and spending levels, and levels of economic activity and the extent of its disruption to important global, regional and local supply chains and economic markets, all of which are highly uncertain and cannot be predicted. The effects of a

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public health emergency may materially and adversely impact the value and performance of the Fund and its investments, the Fund's ability to source, manage and divest investments and the Fund's ability to achieve its investment objectives, all of which could result in significant losses to the Fund. In addition, the operations of the Fund, and the Adviser may be significantly impacted, or even temporarily or permanently halted, as a result of government quarantine measures, voluntary and precautionary restrictions on travel or meetings and other factors related to a public health emergency, including its potential adverse impact on the health of the personnel of any such entity or the personnel of any such entity's key service providers.

- **Legal and Regulatory Risks.**

Section 619 of the Dodd-Frank Act (commonly referred to as the "Volcker Rule"), along with regulations issued by the Federal Reserve and other U.S. federal financial regulators ("Implementing Regulations") generally prohibit "banking entities" (which term includes bank holding companies and their affiliates) from investing in, sponsoring, or having certain types of relationships with, private equity funds or hedge funds (referred to in the Implementing Regulations as "covered funds"). Banking entities (including Morgan Stanley and its affiliates) were required to bring their activities and investments into conformance with the Volcker Rule by July 21, 2015, subject to certain extensions granted by the U.S. Federal Reserve that allow Morgan Stanley and its affiliates until July 21, 2022 at the latest to bring certain of their covered fund activities and investments into compliance with certain aspects of the Volcker Rule.

The Volcker Rule and the Implementing Regulations impose a number of restrictions on Morgan Stanley and its affiliates that could affect the Adviser, a covered fund offered by the Adviser, the general partner of those funds, and the limited partners of such funds. For example, to sponsor and invest in certain covered funds, Morgan Stanley must comply with the Implementing Regulations' "asset management" exemption to the Volcker Rule's prohibition on sponsoring and investing in covered funds. Under this exemption, the investments made by Morgan Stanley (aggregated with certain affiliate and employee investments in a covered fund must not exceed 3% of the covered fund's outstanding ownership interests and Morgan Stanley's aggregate investment in covered funds does not exceed 3% of Morgan Stanley's Tier I capital. In addition, the Volcker Rule and the Implementing Regulations prohibit Morgan Stanley and its affiliates from entering into certain other transactions (including "covered transactions" as defined in Section 23A of the U.S. Federal Reserve Act, as amended) with or for the benefit of, covered funds that it sponsors or advises. For example, Morgan Stanley may not provide loans, hedging transactions with extensions of credit or other credit support to covered funds it advises. While we endeavor to minimize the impact on our covered funds and the assets held by them, Morgan Stanley's interests in determining what actions to take in complying with the Volcker Rule and the Implementing Regulations may conflict with our interests and the interests of the private funds, the general partner and the limited partners of the private funds, all of which may be adversely affected by such

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actions. The foregoing is not an exhaustive discussion of the potential risks the Volcker Rule poses for the Adviser and Morgan Stanley.

**Departure of the United Kingdom (U.K.) from the European Union (EU).** The U.K. formally notified the European Council of its intention to leave the EU on March 29, 2017. The U.K. ratified a withdrawal treaty under which it left the EU on January 31, 2020 with a transition period lasting until December 31, 2020. During the transition period all of the current rules and arrangements will remain in place while the U.K. and the EU seek to negotiate a free trade agreement (“FTA”). The FTA will govern the trading relationship between the U.K. and the EU after the end of the transition period.

The U.K. will remain subject to EU law with access to the single market and privileges to provide services until the end of the transition period, but any further privileges after that date will depend either on extending the transition period or on the terms of the FTA (if the parties have agreed on an FTA). It is not clear whether the FTA will cover the provision of services by U.K. firms.

U.K.-regulated firms and other U.K. businesses could be adversely affected by the terms ultimately agreed under the FTA. A tariff or non-tariff barrier, customs checks, the inability to provide cross-border services, changes in withholding tax, restrictions on movements of employees, restrictions on the transfer of personal data, etc., all have the potential to materially impair the profitability of a business, require it to adapt or even relocate.

If the U.K. and the EU are unable to agree on the terms of an FTA by December 31, 2020 and do not agree to extend the transition period, the U.K. will become a third country vis-à-vis the EU on the expiry of the transition period. As a third country, the cross-border trade in goods between the U.K. and the EU will depend on any multilateral trade agreements to which both the EU and the U.K. are parties (such as those administered by the World Trade Organization) and the provision of services by U.K. firms will be generally restricted to those that could be provided by firms established in any third country.

Given the relatively short time within which to negotiate an FTA, there is a risk that the U.K. may leave the transition period without an FTA. In such circumstances, it is probable that the adverse effects of leaving on unfavorable terms would principally affect the U.K. (and those having an economic interest in, or connected to, the U.K.). However, given the size and global significance of the U.K.’s economy, uncertainty about whether it will secure an FTA by the end of the transition period, and thus uncertainty as to the substance of its future legal, political and economic relationships with Europe may continue to be a source of instability, produce currency fluctuations or have other adverse effects on international markets, international trade and other cross-border cooperation arrangements.

The ongoing process by which the U.K. withdraws from the EU could therefore adversely affect the Fund, the performance of its investments and its ability to fulfil its investment objectives (especially if its investments include, or exposes it to, businesses

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that have relied on access to the EU's single market or whose value is affected adversely by the U.K.'s future relationship with the EU).

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

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

The following list of risk factors does not purport to be a complete list or explanation of the risks involved in an investment in the Fund. The risks summarized below are described in greater detail in the Confidential Offering Memorandum for the Fund. In addition, there are other risks (in addition to risks related to our investment strategy) associated with investing in the Fund, which are described in each Confidential Offering Memorandum. You may also request an updated explanation of risk factors by contacting Morgan Stanley Real Estate Investing Investor Services as described above.

- potential loss of invested capital;
- risks associated with real estate investments;
- competitive real estate investing environment;
- highly competitive and prevailing regulatory or political climates;
- adverse political developments and regulation in foreign countries;
- reliance on expertise of Morgan Stanley investment professionals;
- significant degree of financial and/or business risk;
- risks arising from the volatility of the real estate markets and private equity, private debt, public equity, public debt, global fixed income and other financial markets;
- failure of counterparties or brokers;
- changes to the Fund's investment strategies;
- risks of acquiring real estate loans and participations;
- third party partner investment risks for joint ventures and partnerships;
- lack of diversification due to number, location and type of investments;
- lack of protection by financial covenants in debt investments;
- interest rate fluctuations;
- lack of liquidity and long term nature of investments;

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- limitations on transfers and withdrawals;
  - little or no current return on investments prior to their disposition;
  - risks associated with the realization and disposition of investments;
  - indemnification;
  - tax considerations;
  - use of leverage at the Fund and investment level;
  - risks of borrowing, including inability to obtain indebtedness on favorable terms;
  - commercial and business risks associated with investments in real estate related businesses;
  - risks associated minority investments;
  - potential inability to protect the value of minority equity investments;
  - failure to refinance bridge financing;
  - investments in non-performing, underperforming or other troubled assets;
  - risks arising from providing managerial assistance;
  - reliance on the management of operating companies;
  - interest rate, hedging and currency risks;
  - decision to use hedging techniques;
  - expedited transactions;
  - valuation risks;
  - catastrophic events, epidemics and other force majeure events;
  - limitations on investing due to possession of inside information; and
  - burdensome regulation by one or more governmental entities in specific industries and potential for increased regulation.



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## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Adviser or the integrity of the Adviser's management.

In February 2009, Morgan Stanley announced that it had uncovered actions initiated by an employee based in China in an overseas real estate subsidiary that appear to have violated the United States Foreign Corrupt Practices Act. Morgan Stanley terminated the employee, reported the activity to appropriate authorities and cooperated with investigations undertaken by the DOJ and the SEC. On April 25, 2012, the DOJ announced that the former employee had pleaded guilty to certain criminal charges, and the SEC announced that it had brought certain civil charges against the former employee which were settled. On the same day, the DOJ and SEC announced that they would not take any action against Morgan Stanley in connection with this matter.

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

### **Introduction**

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

### **Broker-Dealer Registration**

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

### **Commodity Pool Operator, Commodity Trading Adviser, Futures Commission Merchant Registration**

The Adviser, the Fund, their respective portfolio companies and their respective affiliates may use the commodity pool operator, commodity trading advisor and futures commission merchant registrations or exemptions of one or more of the following related persons: Morgan Stanley Asia Singapore Pte., Morgan Stanley India Infrastructure GP LP, Morgan Stanley Infrastructure GP LP, Morgan Stanley Infrastructure II GP LP, Morgan Stanley Infrastructure III GP L.P., Morgan Stanley Infrastructure III Investors GP SARL, Morgan Stanley Infrastructure Inc., Morgan Stanley Private Equity Asia III, L.L.C., Morgan Stanley Private Equity Asia IV, L.L.C., Morgan Stanley Private Equity Asia V GP ONT, L.P., Morgan Stanley Private Equity Asia, L.L.C., Morgan Stanley Private Equity Asia Inc., Morgan Stanley Real Estate Special Situations III-GP LLC, MS Capital Partners Adviser Inc., MS Capital Partners V GP L.P., MS Capital Partners V LP, MS Capital Partners VI GP LP, MS Capital Partners VII GP LP, MS Credit Partners II GP L.P., MS Credit Partners III GP L.P., MS Credit Partners III S.a.r.l., MS Energy Partners GP LP, MS Expansion Capital GP LP, MS Tactical Value Fund GP LP, MS Thai Private Equity GP LLC, MSREF Real Estate Advisor Inc., MSREF V International-GP, L.L.C., MSREF VI International-GP, L.L.C., MSREF VII Global-GP, L.P., MSREF VII Hedging GP Ltd., MSREF VIII Global-F, L.P., MSREF VIII Global-GP, L.P., MSREI IX Global GP L.P., NH Senior Loan Fund GP Ltd., Prime Property Fund Asia GP Pte. Limited, Prime Property Fund Europe GP S.a.r.l., SSF Hedging III GP, Ltd, Morgan Stanley AIP GP LP, Morgan Stanley Alternative Investment Partners LP, and Morgan Stanley Investment Management Inc.

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## Other Material Relationships with Affiliated Entities

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

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

- Participating Affiliates

Investment advice is provided to the Fund and its respective general partner not only through the Adviser but also through certain of the employees of one or more of the following related persons:

- Morgan Stanley & Co. International plc
- Morgan Stanley (France) SAS
- Morgan Stanley Australia Limited
- Morgan Stanley India Financial Services Private Limited
- Morgan Stanley Asia Limited
- Morgan Stanley Asia (Singapore) PTE
- Morgan Stanley Capital K.K.
- Morgan Stanley Business Consulting (Shanghai) Limited

These related persons may or may not be registered with the SEC as investment advisers but are foreign affiliated advisers that may provide advice or research for the Adviser for use with the Fund (in such capacity, the "Participating Affiliates"). The Participating Affiliates also may provide non-advisory services to the Adviser and the Fund. The Adviser may delegate all or a portion of its advisory or other functions to any of its Participating Affiliates.

The Participating Affiliates will remain subject to the supervision of the Adviser in respect of their provision of services to the Adviser and the Fund.

- Other Advisory Affiliates

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

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

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

- Affiliates Acting as Fundraising Broker-Dealers

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

The prospect of receiving, or the receipt of, additional compensation by the Placement Agents may provide such Placement Agents and their salespersons with an incentive to favor sales of interests and interests in funds whose affiliates make similar compensation available over sales of interests in funds (or other fund investments) with respect to which the Placement Agent does not receive additional compensation, or receives lower levels of additional compensation. Morgan Stanley employees involved in the marketing and placement of the interests are not acting as tax, financial, legal or accounting advisors to potential investors in connection with the offering of the interests.

- Affiliates Acting as Investment Bankers

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

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

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

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

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

- Other Limited Partnership Investment Vehicles or Funds
  - General; Carried Interests

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

The Fund's general partner's carried interest may create an incentive for such general partner to make more speculative investments for such Fund than it would otherwise make in the absence of such performance-based distributions. Furthermore, investments made with third parties in joint ventures or other entities may involve carried interests and/or other fees payable to such third party partners of co-investors, which could also create an incentive for such parties to take risks with respect to such investments. In addition, the method of calculating the carried interest may result in conflicts of interest between the Fund's general partner, on the one hand, and the investors, on the other hand, with respect to the management and disposition of investments. For example, the Fund's general partner will value any securities being distributed in-kind to investors in order to calculate the carried interest. If the valuations conducted by the Fund's general partner are incorrect, the amount of payment of carried interest could be incorrect.

- Morgan Stanley Investments and Affiliated Investment Accounts

Morgan Stanley may advise clients and has sponsored, managed or advised other alternative investment funds and investment programs, accounts and businesses (collectively, together with any new or successor funds, programs, accounts or businesses, the "Affiliated Investment Accounts") that have or will have active investment programs that are substantially similar to those

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of the Fund. Morgan Stanley may also from time to time create new or successor Affiliated Investment Accounts that may compete with the Fund and may present similar conflicts of interest. Certain members of the Fund's investment team and the Investment Committee may make investment decisions on behalf of both Morgan Stanley and such Affiliated Investment Accounts, including Affiliated Investment Accounts with investment objectives that overlap with those of the Fund. In addition, certain Affiliated Investment Accounts may make investments similar to those that may be made by the Fund even if they are not solely focused on such investments.

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

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

- Other Morgan Stanley Investment Management Activities

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

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

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undertaken by Morgan Stanley affiliates acting as general partner and/or adviser to such private investment funds.

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

- Management Persons

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

Certain of the Adviser's management persons may also hold positions with the affiliates listed above. In these positions, those management persons of the Adviser may have some responsibility with respect to the business of these affiliates and the compensation of these management persons may be based, in part, upon the profitability of other affiliates. Additionally, these management persons may come into possession of confidential non-public information and may be recused from certain investment-related discussions, including Investment Committee meetings, so that such members do not receive information that would limit their ability to perform functions of their employment with Morgan Stanley unrelated to the Fund. Consequently, in carrying out their roles with the Adviser or the Fund and these other entities, the management persons of the Adviser may be subject to the same or similar conflicts of interest that exist between the Adviser and these affiliates.

### **Conflict Identification and Mitigation**

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

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respect to conflicts of interest or approvals required under the Advisers Act, including Section 206(3) and/or the relevant partnership agreement. The Adviser may also choose to seek the approval of Limited Partners of the Fund with respect to certain conflict situations or matters under the Advisers Act.



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

### **Code of Ethics**

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

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

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

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

### **Personal Trading and Investments**

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

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

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

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

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

### **Allocation of Investment Opportunities**

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

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

The Adviser is empowered to take into account other considerations it deems appropriate to ensure a fair and equitable allocation of opportunities.

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

The general partner of the Fund may offer co-investment opportunities with respect to none, some or all of the Fund’s investments. In the event that the general partner offers co-investment opportunities, such opportunities will be offered pursuant to the terms of the partnership agreement. Certain of the investors of the Fund may have priority rights (but not obligations) to participate in co-investment opportunities, subject to the terms and conditions of the partnership agreement, subscription agreement, side letter agreement or other agreement setting forth such priority rights. After the allocation of co-investment opportunities to such investors with priority rights to co-investment opportunities (if any), the general partner may allocate the remainder (if any) of co-investment opportunities among interested parties in its sole discretion including for example, on the basis of the size of investor commitments to the Fund and other Affiliated Investment Accounts as well as a broad range of other considerations, including, commercial

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considerations for the applicable portfolio investment, a Limited Partner's stated desire to participate in co-investments, the general partner's determination of the appropriateness of offering a co-investment opportunity, an investor's ability to execute such offer and the approval of transaction counterparties. There can be no assurance with respect to the amount of any co-investment opportunity that will be made available to a Limited Partner in connection with the Fund, and there is no guarantee, prediction or projection of the availability to a Limited Partner of future co-investment opportunities.

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

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

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## **Item 12 – Brokerage Practices**

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

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

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

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**Item 13 – Review of Accounts**

In general, the Investment Committee reviews and approves all significant proposed investment decisions made on behalf of the Fund. The members of the Investment Committee are identified in the Supplements to the Adviser's Brochure in Form ADV Part 2B.

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

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

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

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

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**Item 15 – Custody**

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

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**Item 16 – Investment Discretion**

As the manager of the general partner of the Fund, the Adviser (together with the general partner) has the discretion to determine, without consent of the Limited Partners, the particular investments to be bought and sold, the broker or dealer (including a Morgan Stanley affiliate) to be used (if any) and the commission rates to be paid by the Fund in cases where a broker or dealer is used. The Adviser provides investment advice to the Fund, subject to certain investment limitations regarding concentration and diversification, geography and type of permitted investments as set forth in the partnership agreement of the Fund. Such investment limitations may be disregarded with the consent of the Fund's Advisory Committee, as set forth in the partnership agreement of the Fund.

When executing transactions on behalf of the Fund through a broker, dealer or underwriter, the Adviser's objective is to obtain the most favorable commission and the best price available on each transaction in light of the quality of execution provided. Consequently, brokers, dealers and underwriters are selected primarily on the basis of their execution, capability and trading expertise.

Investment discretion is assumed pursuant to the relevant partnership agreement, which confers express authority to the general partner and its affiliates (including the Adviser) to make all decisions concerning the investigation, evaluation, selection, negotiation, structuring, commitment to, monitoring of and disposition of investments.



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

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

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

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

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

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

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

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**Item 18 – Financial Information**

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