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INVESTMENT MANAGEMENT

AIP Private Markets
Introduction to Alternative Investments

Vikram Raju, Partner

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SECTION 1

What is Private Equity?

Illustrative Private Equity Strategies

Stages Of Company Life Cycle. For Illustrative Purposes Only[1]

Early Stage Venture Capital

- Seed or startup equity in private companies that may not be generating revenue or profits

Growth Capital

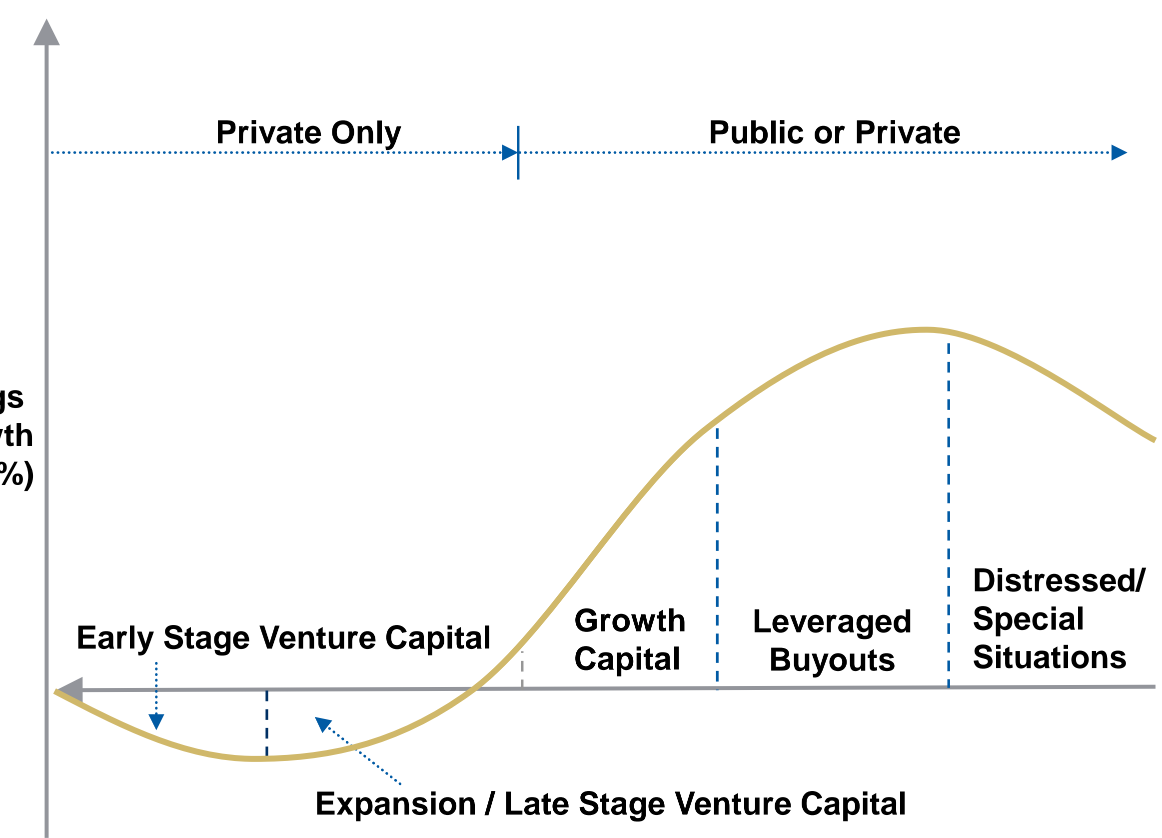
- Equity investments in more mature companies to provide funding for growth and expansion

Leveraged Buyout

- Equity investments to acquire a controlling interest in a company

Distressed/Special Situations

- Investments in unconventional strategies such as energy, royalty, and distressed funds



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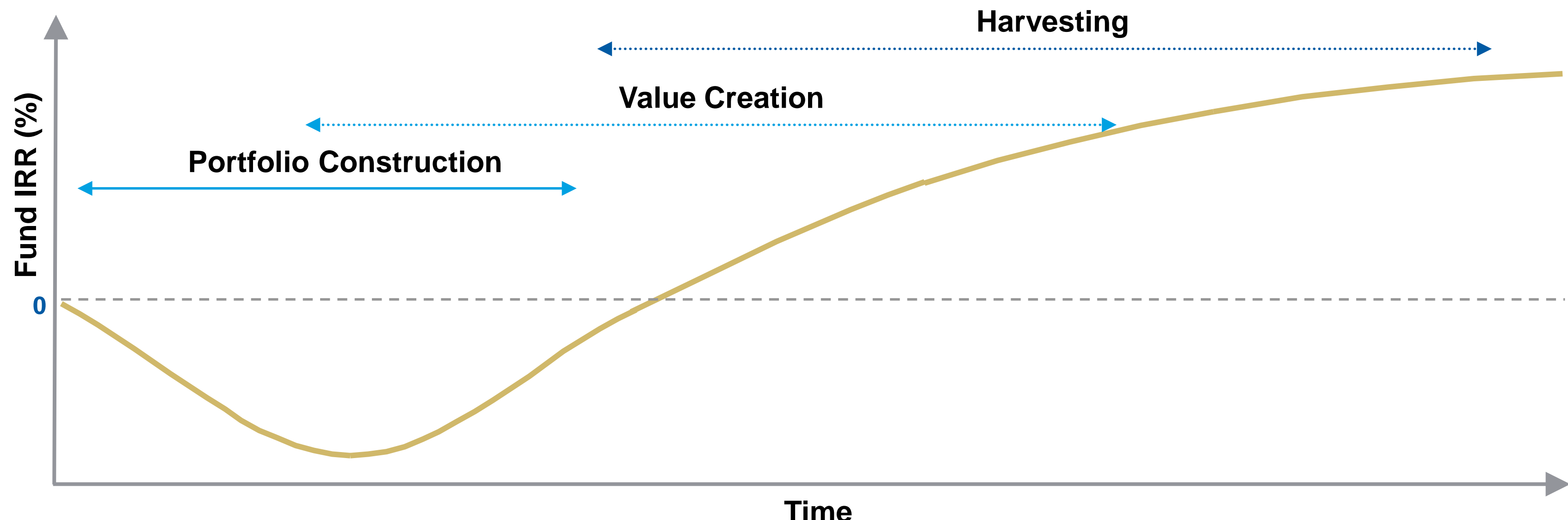
Private Equity Investing

The J-Curve

- Economic outcome of a private equity fund investment not known for years
- The performance of successful funds typically follows a J-curve pattern
- J-Curve drivers:
  - Management fees drawn on committed capital during investment period
  - Investments held at cost for at least first few years



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Private Equity Returns

How Private Equity Can Generate Return Premiums

- Illiquid assets acquired at a discount to public/liquid alternatives
- Access to more information than typically available with public equities
- Strong interest alignment between management and owners
- Control, value-added investing
- Highly adaptive governance

Mechanisms for Value Creation

- Earnings Growth – revenue improvement, operating efficiency
- Multiple Expansion – “private-to-public arbitrage”
- De-Leverage – debt pay down

How to Measure Private Equity Returns

- IRR %
- Cash Multiple
- Long-Dated Horizon – generally three-five year hold periods and seven to 15 year fund life

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SECTION 2

How Should Investors Think About Private Equity In Their Portfolios?

Why Consider Investing in Private Equity?

Potential PE Benefits

Potential to exceed public equity returns

Historically, relatively low correlation with public equity/bonds

Strong interest alignment with investors

Potential PE Challenges

Illiquidity: Investments locked up for significant time

Resource intensive: requires significant manpower

Costs: management and incentive fees

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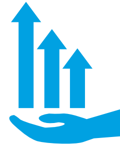
These investments are only suitable for long term investors willing to forgo liquidity and put capital at risk for an indefinite time. The risks herein are only a summary of risks associated with private equity investments. An investor should review the offering memorandum of an investment for a more complete discussion of such risks.

Drivers of Private Equity Returns



Potential Sources of Value Creation

Company Specific

Earnings Growth (revenue growth, operating improvement)

Multiple Expansion (valuation arbitrage)

De-leveraging (value transfer from debt to equity)

Other Value Creation Sources

Information asymmetries

Pricing opacity

Governance

Interest alignment

Longer term value optimization

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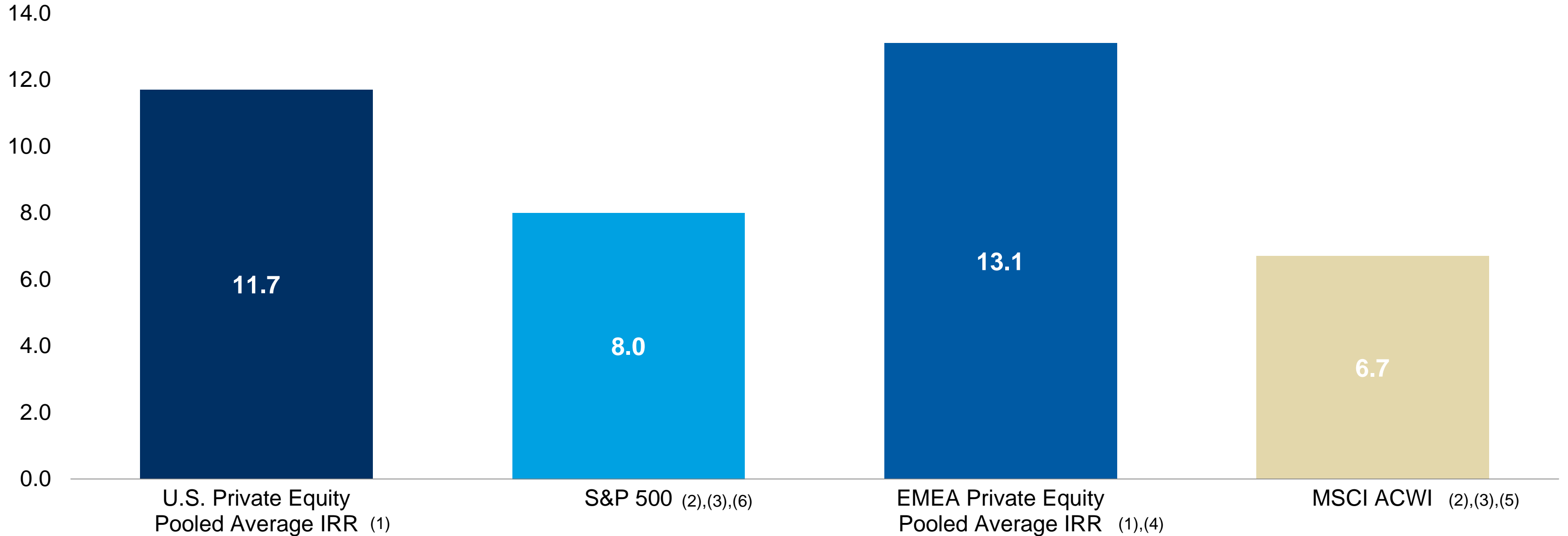
Private Equity Opportunity

Private Equity Has Historically Offered Attractive Long Term Returns Vs. Public Equity Markets

Private vs. Public Equity Returns (1996 to 2016 as of June 30, 2018)

Annualized IRR (%)



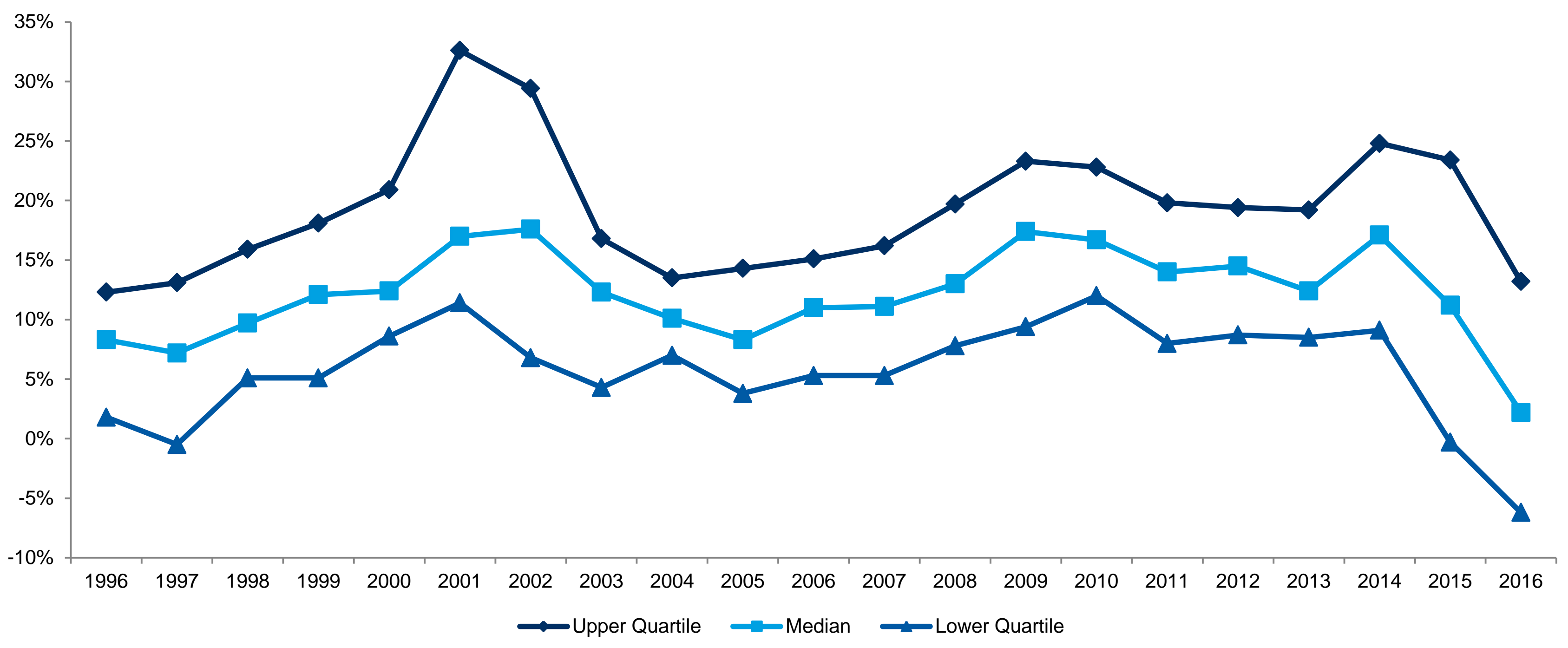
Past performance is no guide to future performance and the value of investments and income from them can fall as well as rise.
Source: Thomson One database for vintage years 1996 through 2016 cumulative performance through June 30, 2018 as reported on November 16, 2018.
1. Net of manager fees and carried interest.
2. Includes dividends.
3. Matched cash flow analysis equates the time-weighted return performance of public benchmarks to the internal rate of return (IRR) of private markets investment. There are no transaction fees assumed for the purchase and sales of the index.
4. EMEA Private Equity Pooled Average IRR includes Europe, the Middle East and Africa.
5. MSCI ACWI captures large and mid cap representation across 23 Developed Markets and 23 Emerging Markets countries. With 2,470 constituents, the index covers approximately 85% of the global investable equity opportunity set.
6. The Standard & Poor's 500 Index (S&P 500) is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. The S&P 500 is a market value weighted index and one of the common benchmarks for the U.S. stock market

Return Dispersion

Private Equity Return Dispersion By Fund Manager Is Wider Than Within Other Asset Classes, Making Fund Manager Selection And Diversification Critical To Achieving Superior Results

U.S. Private Equity[1]

Vintage Years 1996 – 2016 (Measured as of June 30, 2018)



Past performance is not indicative of future results. Diversification does not eliminate risk of loss.
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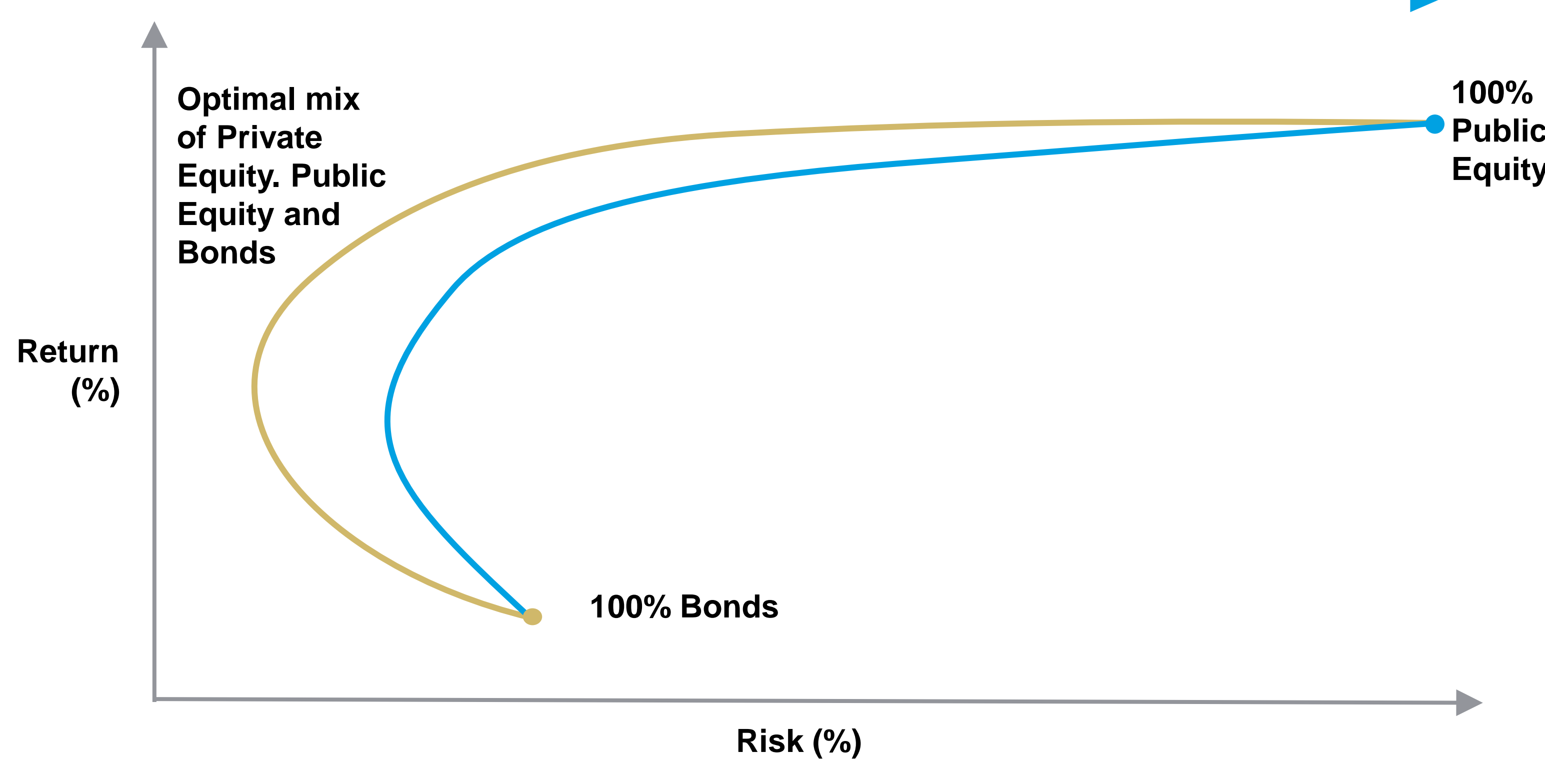
Source: Thomson One for data through June 30, 2018. Past performance is not indicative of future results. Diversification does not eliminate risk of loss.
1. Investors should note that statements about the prior performance of private equity funds are provided solely for illustrative purposes. No representation is made that an investor will achieve the results that are shown herein.

Improving the Risk-Return Trade-Off: Efficient Frontier Analysis[1]

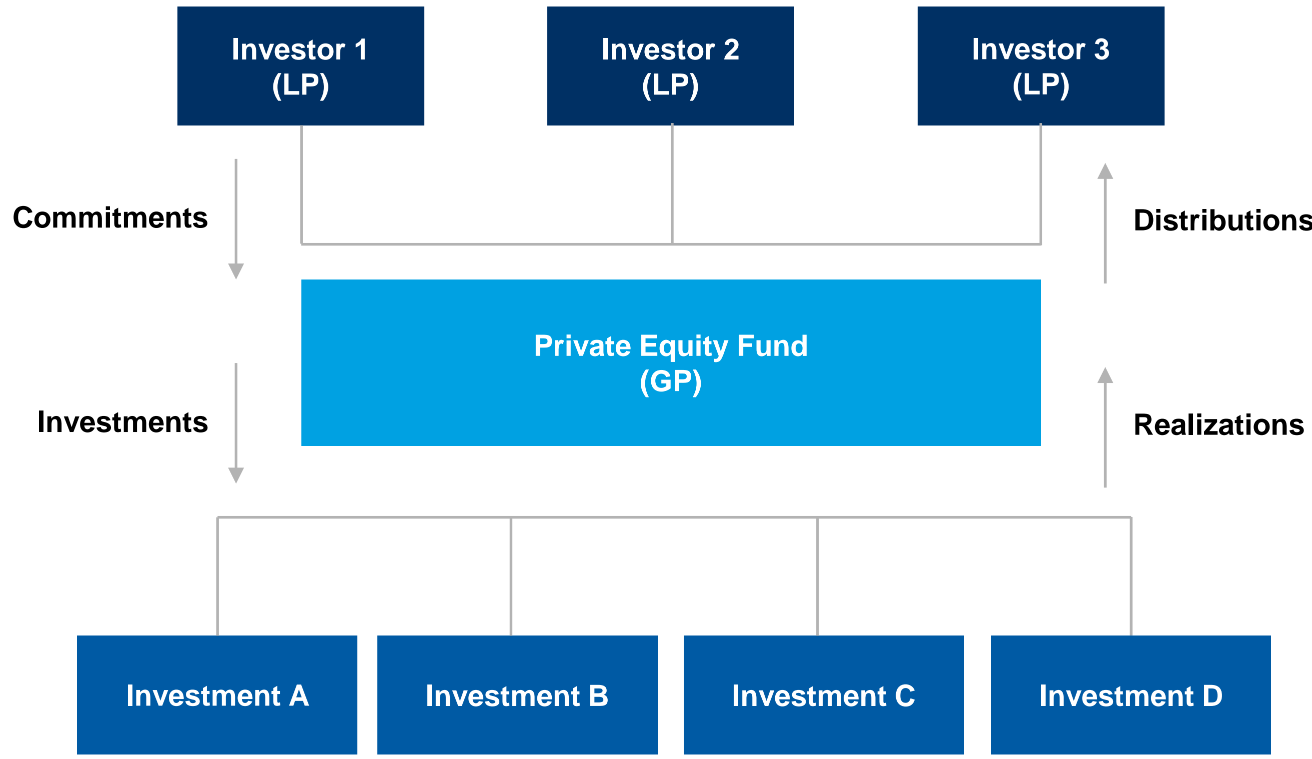


1. Source: European Venture Capital Association as of September 2014 The statements reflect the views of Morgan Stanley AIP as of the date of this presentation and not as of any future dates. All forecasts are speculative, subject to change and may not come to pass due to changes in market and economic conditions. **There can be no assurance that investors will receive the results shown above.**

Primary Fund Investing

Fund Structure

- Private equity funds are typically based on a 'GP-LP' structure, whereby investors (the limited partners, or LPs) commit funds to the private equity fund (the general partner, or GP).
- The fund pools these commitments and uses them to invest in underlying assets. Once the investments are realized, capital flows in the reverse direction back to the LPs as distributions.



The information set forth above is provided for purposes of illustration only and as an example and does not reflect an actual investment.

Secondary Fund Investing

Drivers of secondary activity:

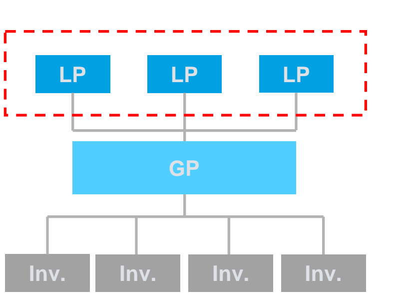
- Rebalance portfolio exposures
- Reduce administrative burden
- Exit non-core GP relationships
- Regulatory / accounting issues
- Distressed sellers in need of liquidity

Sellers in secondary transactions typically include:

- Pension funds
- Financial institutions / Insurance companies
- Endowments and foundations
- High net worth individuals and family offices
- Hedge funds

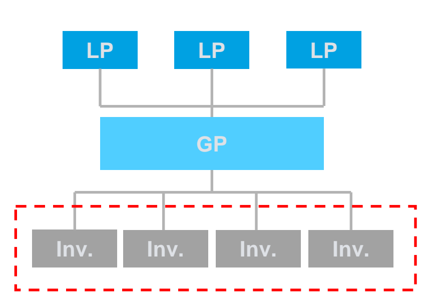
Limited Partnership Secondaries[1]

- Involves acquiring a single PE interest or portfolio of interests, typically over 50% invested
- Purchase of underlying assets plus unfunded commitment
- LBO, Mezzanine, Venture Capital, Special Situation funds



Direct Secondaries

- Acquire a direct interest in a company or a portfolio of companies
- Back a GP to manage the assets
- May provide GP with primary capital



1. LP Secondaries are generally subject to the consent of the fund manager and are occasionally contingent upon other existing investors first being given the opportunity to acquire the seller's interest at the negotiated price and on the terms offered by the secondary buyer. LP Secondaries may involve a single interest or a portfolio of private equity interests owned by the seller.

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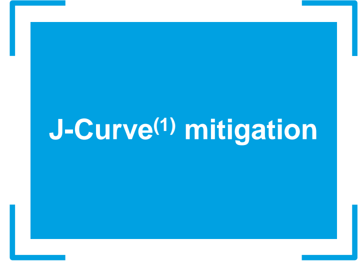
Potential Benefits of Secondary Investments



Avoid start-up costs and fees in early years and future fees are priced in

Accelerate investment program and shorten time for realization

Able to establish industry, strategy, geography and vintage year "look-back" diversification

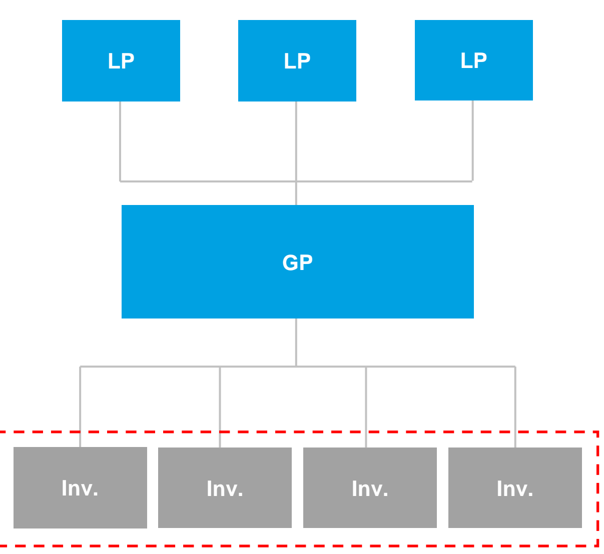
Able to conduct due diligence and value underlying investments

1. Demonstrates the stages of a private equity interest's life cycle. **For illustrative purposes only.** There can be no assurance that investors will receive the results shown above. The statements above reflect the views and opinions of AIP as of the date hereof and not as of any future date and will not be updated or supplemented. All forecasts are speculative, subject to change and may not come to pass due to changes in market and economic conditions.

Potential Co-investment Opportunities

Characteristics

- Invest alongside GPs in individual deals
- Typically offered to preferred existing LPs in the fund on a no fee, no carry basis
- Increasingly prevalent in current market environment where debt financing is difficult to obtain or prohibitively expensive.
- GPs are limited by portfolio constraints on single investments in their fund, and have to syndicate out equity exposure



Benefits

- Possibility of enhanced returns due to reduced fee drag
- Ability to increase exposure to potentially attractive deals
- Can help to build relationship with GP

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Source: Morgan Stanley AIP

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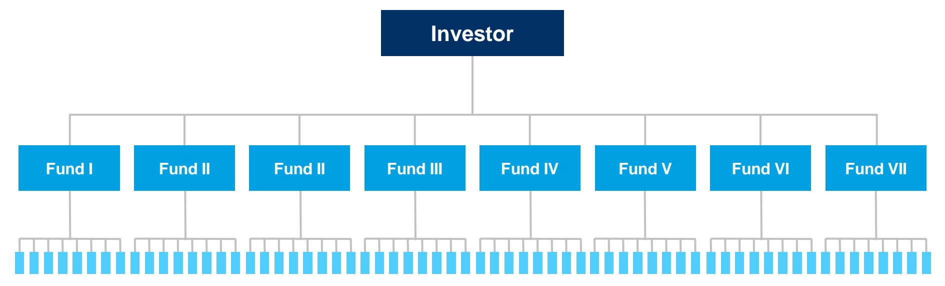
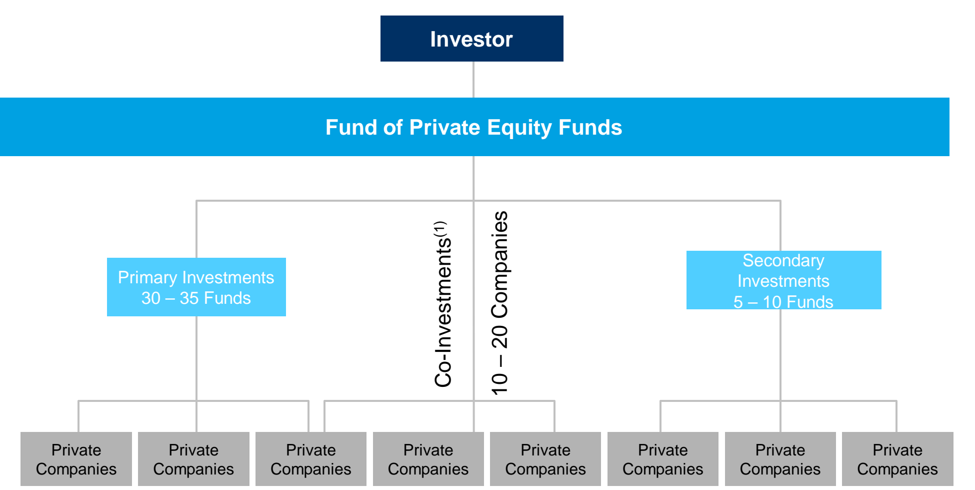
Methods of Accessing Private Equity



Individual Underlying Companies

Direct Private Equity

- Single layer of fees
- Discretion to select own underlying managers



Fund of Private Equity Funds

- Large footprint allowing diversification across geographies and strategies
- Access to the entire spectrum of PE opportunities, particularly small to mid cap, including emerging managers
- Advisory Board seats due to bigger investments Large pool of resources globally for due diligence
- Access to co-investments and secondaries
- Legal and commercial review of terms
- Monitoring and administrative efficiency

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What Are Hedge Funds?

What Are Hedge Funds?

- Private investment vehicles with historically lower regulatory oversight
- NOT an asset class, but a way to access asset classes
- Broad investment mandates, with flexibility to use
  - Leverage
  - Short Selling
  - Derivatives
  - Multiple Asset Classes
- Provide access to manager skill, through market timing and security selection

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Typical Characteristics of Hedge Funds (1)

	MUTUAL FUND	HEDGE FUND
Market Exposure	Higher	Lower
Fees	Typically Lower (Shareholder Fees + Management Fees)	Typically Higher (Management Fee + Performance Fee)
Liquidity	Typically Daily	Typically Monthly or Quarterly with notice period and ‘soft lock up’
Valuation Frequency	Typically Daily	Typically Monthly
Investment Flexibility	Lower	Higher
Legal Form	Corporations or Trusts	U.S. Limited Partnership / Offshore Limited Liability Company
Regulatory Oversight	Higher	Lower, but rising

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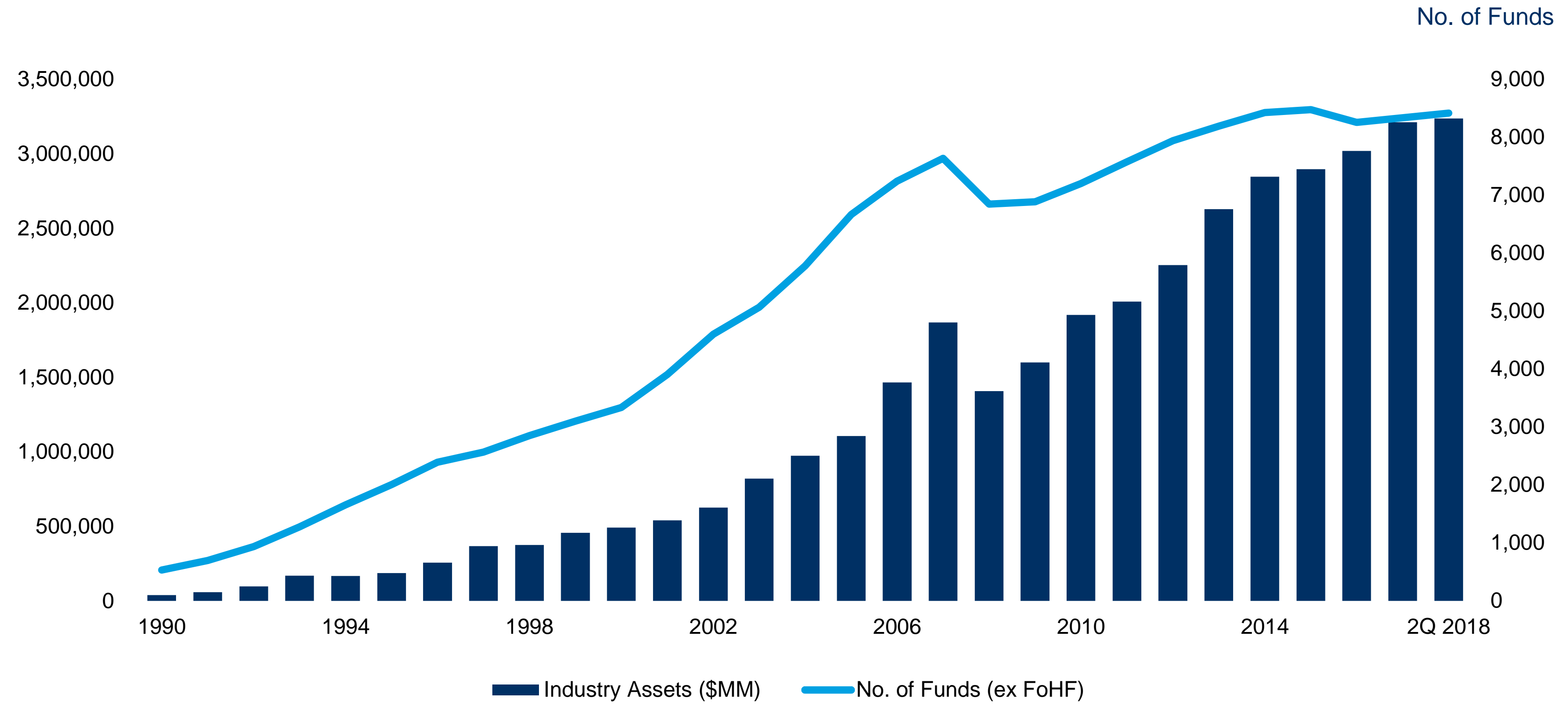
1. For illustrative purposes only. List may not be exhaustive.

Hedge Fund Industry Assets Under Management

Collective Hedge Fund AUM

Estimated Growth of the Hedge Fund Industry as of June 30, 2018



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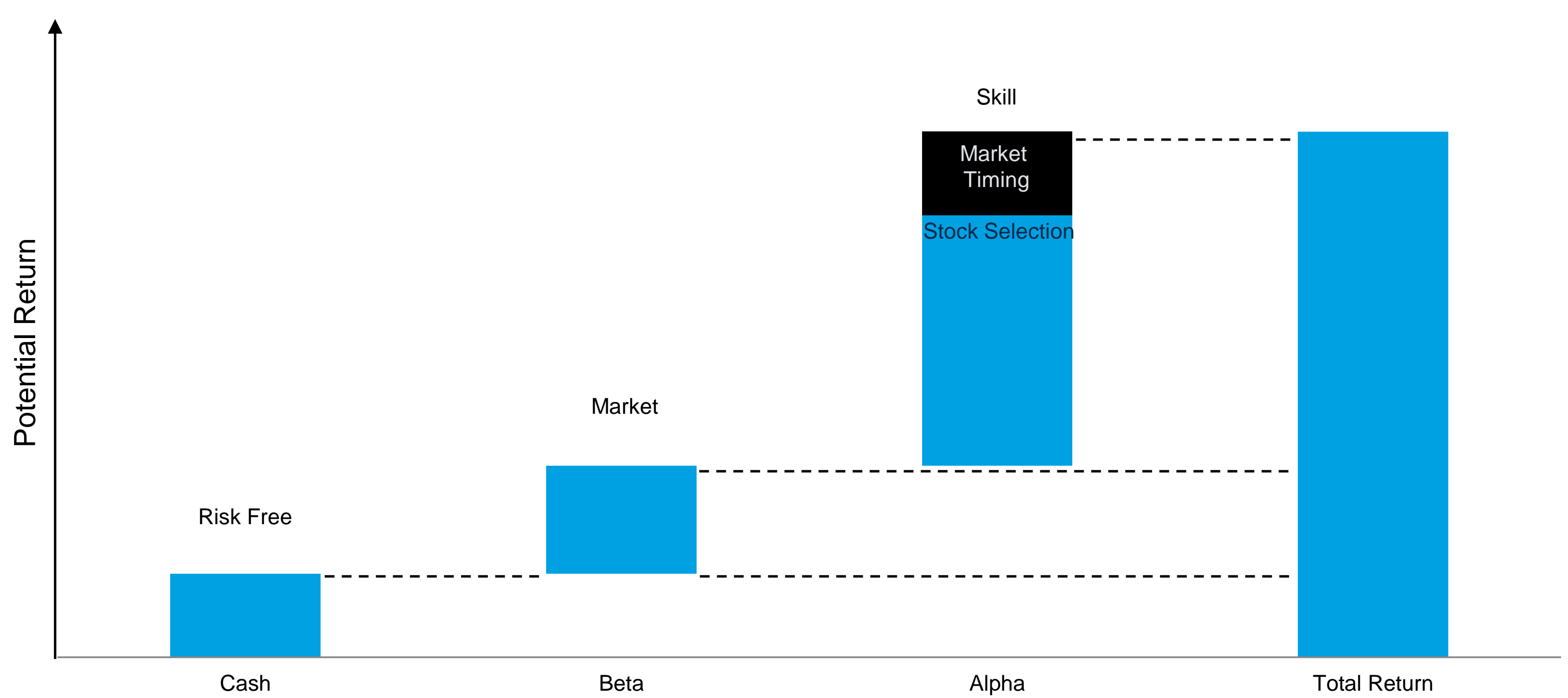
1. Source: HFR Global Hedge Fund Industry Report – Second Quarter.

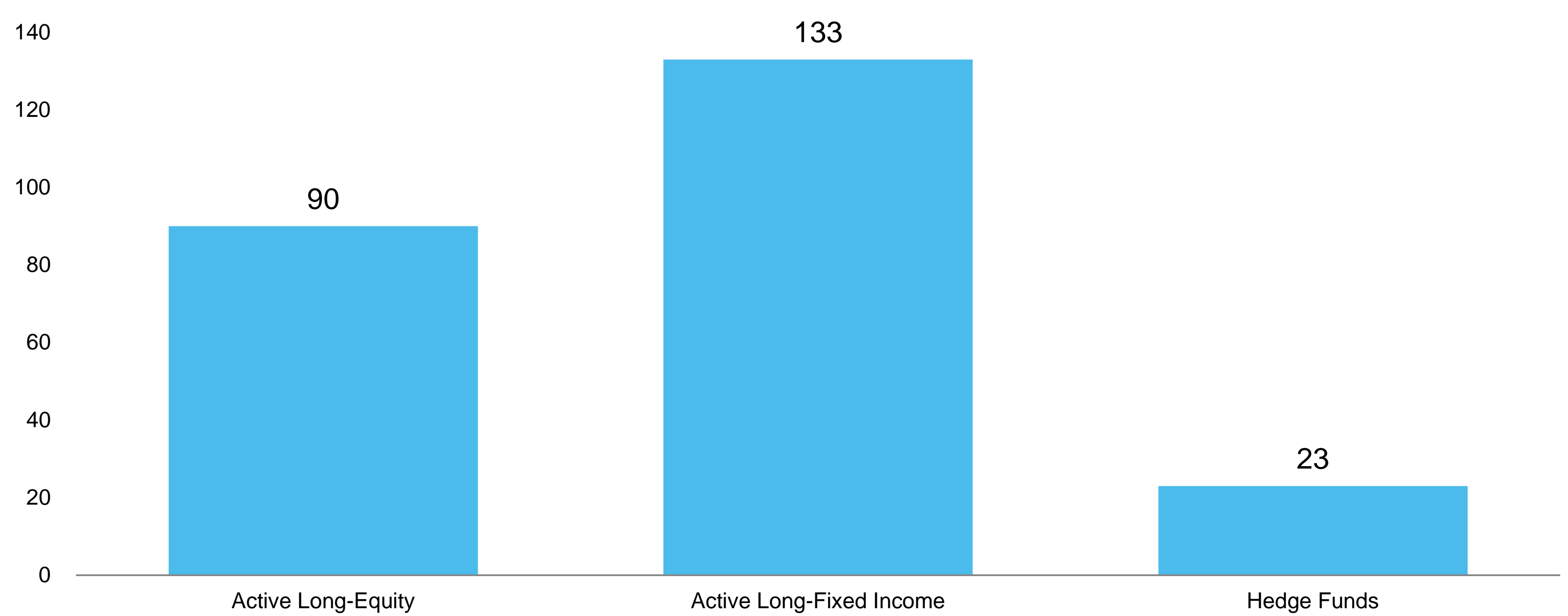
Hedge Funds May Offer a Differentiated Source of Return



Examples on this slide are purely hypothetical or use either concealed or transformed actual results of an arbitrarily selected or representative manager, to illustrate a feature of the analysis, as opposed to providing conclusive results from the illustrative analysis. **There can be no assurance that investors will receive results as shown above.**
Past performance does not guarantee future results.
Source: AIP Hedge Fund Solutions Group.

Market Betas: Hedge Funds vs. Traditional Managers

Proportion of Returns from Market Betas
(%)



Source: Brown, et. al., Journal of Alternative Investments, Fall 2007, Vol 10, No. 2

Past performance is not indicative of future results. The results above are not intended to predict the performance of any specific investment. Indices are unmanaged and their returns generally do not include sales charges or fees, which would lower performance. It is not possible to invest directly in an index.

Hedge Fund Styles and Strategies

- There is no one definitive way to classify a hedge fund manager into universally agreeable styles or strategies
- Classifying different types of hedge funds and dividing them up into their respective categories can be a complex issue
- Even within the same sub-strategy, you can observe widely differing risk and return characteristics between managers

Generally Lower Correlation to Equities

Equity Long/Short	Event Driven	Relative Value	Global Macro
Opportunistic	Distressed Securities	Convertible Arbitrage	Discretionary Traders
Active Trading	Merger / Risk Arbitrage	Fixed Income Arbitrage	Systematic Trend Followers
High Hedge	Restructuring and Value	Mortgage Arbitrage	High Frequency Trading
	Event Driven Credit	Statistical Arbitrage	
	Multi Strategy	Relative Value Credit	
		Multi Strategy	

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Hedge Fund Styles and Strategies – Equity Long/Short

Equity Long/Short

Opportunistic

Active Trading

High Hedge

- Largest style in terms of assets and number of funds
- Liquidity tends to be better than other hedge fund styles
- Alpha generation from security selection, sector positioning and gross / net exposure management
- Most funds have a modest long bias with the short positions serving mainly two purposes
  - Generate alpha
  - Hedge market risk (reduce beta)

Hypothetical example in table below is of a high hedged long/short trade

	LONG POSITION – XYZ	SHORT POSITION – ABC	SHORT INTEREST Rebate – ABC	StOCK LOAN Cost – ABC	DIVIDENDS – XYZ and ABC	TOTAL
Trades on 1/1/2015						
Buy XYZ Corp. (2.5% Yield) 10,000 Shares @ $50 per Share	($500,000)					
Sell Short ABC Corp. (1.0% Yield) 12,500 Shares @ $40 per Share		$500,000				
Trades on 12/31/2015						
Sell XYZ 10,000 Shares @ $55 per Share	550,000					
Gain on XYZ	**50,000**				$12,500	$62,500
Cover ABC Corp. 12,500 Shares @ $37 per Share		(462,500)				
Gain on ABC		**37,500**	$22,500	($1,250)	(5,000)	53,750
Total Return						**$116,250**

Examples on this slide are purely hypothetical or use either concealed or transformed actual results of an arbitrarily selected or representative manager, to illustrate a feature of the analysis, as opposed to providing conclusive results from the illustrative analysis. There is no guarantee an investor would achieve results as shown above.

Hedge Fund Styles and Strategies – Event Driven

Event Driven

Distressed Securities

Merger / Risk Arbitrage

Restructuring and Value

Event Driven Credit

Multi-Strategy

- Focus on corporate events that serve as catalysts to a re-pricing of securities by the market, such as
  - Mergers and acquisitions
  - Spin offs / divestitures
  - Balance sheet restructuring
  - Share buybacks / dividends
  - Bankruptcies, liquidations
- In certain cases these may be initiated by the manager (“activism”)
- Opportunities for high alpha, particularly through activism
- Credit beta tends to be higher than other styles
- Liquidity mixed; Some of the least liquid hedge funds are found in this style
- Dominated by multi strategy managers that have flexibility to be opportunistic and move across asset classes and strategies

The statements above reflect the opinions and views of Morgan Stanley AIP as of the date hereof and not as of any future date and will not be updated or supplemented. All forecasts are speculative, subject to change at any time and may not come to pass due to economic and market conditions.

Hedge Fund Styles and Strategies – Global Macro

Global Macro

Discretionary Traders

Systematic Trend Followers

High Frequency Trading

- Strategy typically involves directional positioning globally across broad range of liquid instruments
- Majority of alpha comes from market timing as opposed to security selection, with trades largely based on top down views and economic indicators
- Two main styles
  - Discretionary : Human has discretion over trade timing, size and implementation
  - Systematic : Computer executes trades, usually based on quantitative models
- Inputs may be technical or fundamental
  - Fundamental : Use valuation techniques and macroeconomic variables as inputs to trading decisions
  - Technical : Use market data patterns (e.g., price, volume) to form trading decisions, often utilised by trend followers such as Commodity Trading Advisors ("CTAs")
- Wide range of trade time horizons between managers, from hourly / daily to monthly / yearly
- Liquidity tends to be among the strongest of all hedge fund styles

The statements above reflect the opinions and views of Morgan Stanley AIP as of the date hereof and not as of any future date and will not be updated or supplemented. All forecasts are speculative, subject to change at any time and may not come to pass due to economic and market conditions.

Hedge Fund Styles and Strategies – Relative Value

Relative Value

Convertible Arbitrage

Fixed Income Arbitrage

Mortgage Arbitrage

Statistical Arbitrage

Relative Value Credit

Multi-Strategy

- Focus on mispricing between related securities, either issued by the same company or by competing companies
- Trading opportunities created by break-downs in normal relationships between securities, usually driven by technical factors
- Managers tend to hedge most or all betas with the aim of isolating security mispricing as the driver of returns and profit regardless of market direction
- Typically lowest total returns of all hedge fund styles, but highest proportion of returns from alpha
- Liquidity mixed; Some of the least liquid hedge funds are found in this style
- Many of the most successful managers in this style are multi strategy managers that have flexibility to be opportunistic and move across asset classes and strategies

The statements above reflect the opinions and views of Morgan Stanley AIP as of the date hereof and not as of any future date and will not be updated or supplemented. All forecasts are speculative, subject to change at any time and may not come to pass due to economic and market conditions.

Morgan Stanley

INVESTMENT MANAGEMENT

The Role of Hedge Funds in a Portfolio

Potential Benefits

RETURNS	RISK MANAGEMENT	PORTFOLIO ENHANCEMENT
1 Cumulative Absolute Returns	1 Drawdown Management	1 Low Correlation
2 Differentiated Source of Returns	2 Outperformance in stress periods	2 Lower Volatility
3 Alpha Returns	3 Dynamic Reduction of Market Exposure	3 Risk Adjusted Returns

Potential Risks

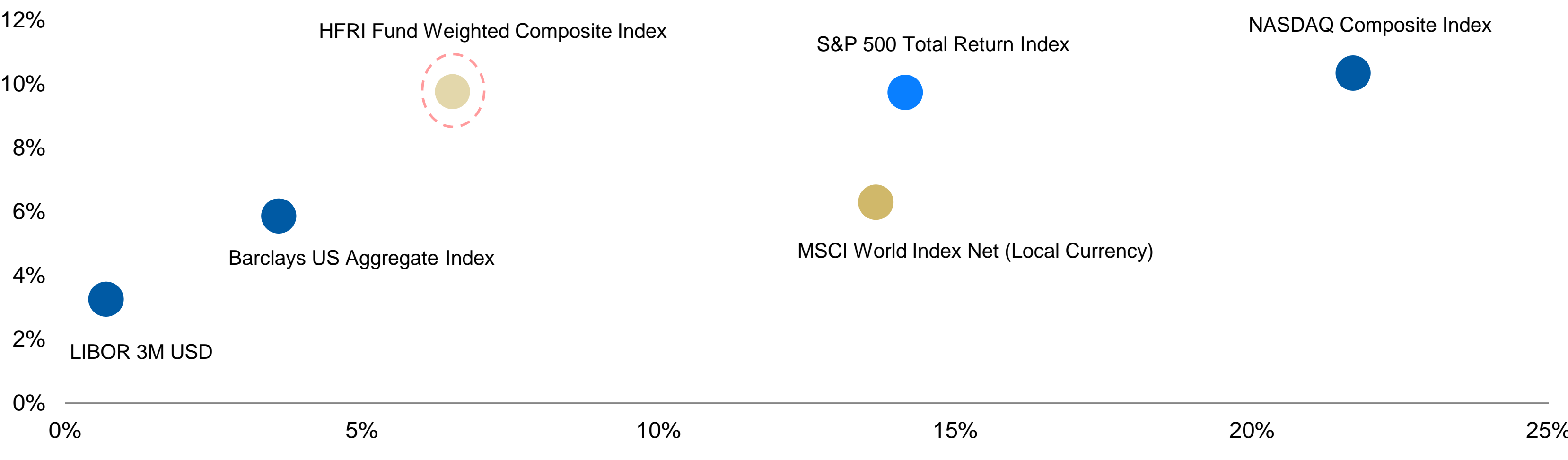
MARKET RISKS	LIQUIDITY RISKS	EXTERNAL RISK
1 Adverse Market Movements	1 Limited Liquidity of Hedge Funds	1 Foreign Currency Risks

These views represent the view of the authors of this presentation as of the date of this presentation. Market developments may cause reassessment of these views at any time, and, consequently, these views may change at any time. Provided for informational purposes only. Please refer to the Summary of Risk Factors in the back for a more comprehensive list of risks associated with hedge fund investing.

Hedge Funds Have Provided Attractive Risk Adjusted Returns (1),(2),(3)

Adding Potential Diversification Benefits Through Active Management Over Time

Risk / Return (January 1990 – June 2018)



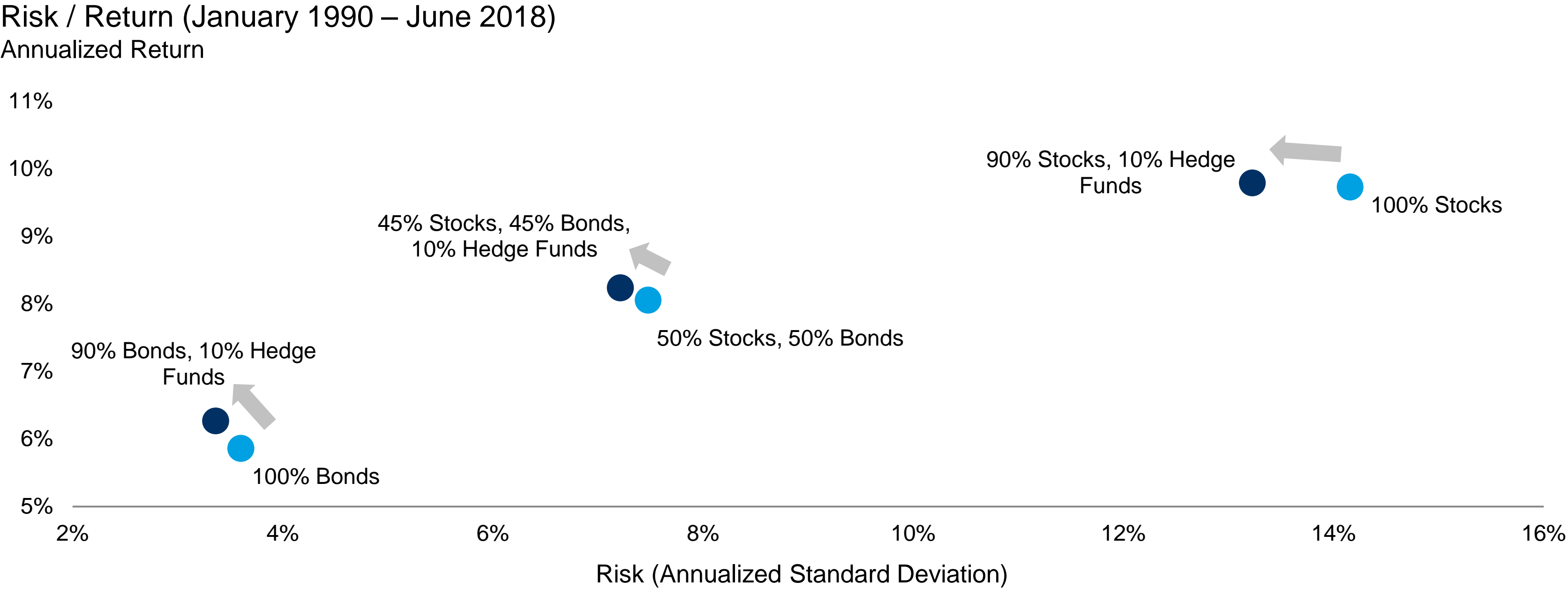
Source: Hedge Fund Research, Standard & Poor's, Morgan Stanley and Barclays Capital. Data as of June 30, 2018.

1. These views represent the views of the authors of this presentation as of the date of this presentation. Market developments may cause reassessment of these views at any time, and, consequently, these views may change at any time. Provided for informational purposes only.
2. Indexes are unmanaged portfolios of securities and do not represent the performance of a specific investment. Investors cannot invest directly in an Index.
3. **Past performance is not indicative of future results.** The results above are not intended to predict the performance of any specific investment.

Cash is represented by LIBOR 3M USD. U.S. stocks represented by the S&P 500 Total Return Index; Bonds represented by the Barclays US Aggregate Bond Index; Hedge Funds represented by the HFRI Fund Weighted Composite Index. Global equities represented by MSCI World Index. US technology stocks represented by NASDAQ Composite Index. Source: Bloomberg. Indexes are unmanaged and investors cannot directly invest in them. Composite index results are shown for illustrative purposes and do not represent the performance of a specific investment. Indices of hedge funds have material inherent limitations. Past performance is no guarantee of future results. This information is for illustrative purposes only and is not intended to represent the performance of any specific investment. Diversification does not eliminate the risk of loss.

Hedge Funds May Serve as Diversifiers to Traditional Portfolios

Comparison of Risk-Adjusted Returns Among Hypothetical Portfolio Allocations – Using Index Returns



U.S. Stocks represented by the S&P 500 Total Return Index; Bonds represented by the Barclays US Aggregate Bond Index; Hedge Funds represented by the HFRI Fund Weighted Composite Index. Source: Bloomberg. Data as of June 30, 2018. Indexes are unmanaged and investors cannot directly invest in them. Composite index results are shown for illustrative purposes and do not represent the performance of a specific investment. Indices of hedge funds have material inherent limitations. Past performance is no guarantee of future results. This information is for illustrative purposes only and is not intended to represent the performance of any specific investment. Diversification does not eliminate the risk of loss.

Summary of Risk Factors

This is a summary of various risks associated with investing in a portfolio of private equity fund investments (a "Portfolio"). This summary is not, and is not intended to be, a complete enumeration or explanation of the risks involved. The recipient should consult with its own advisors before deciding whether to invest in a Portfolio. In addition, to the extent that the investment program of a Portfolio changes and develops over time, additional risk factors not described here may apply. Only a recipient who understands the nature of the investment, does not require liquidity in the investment for the whole of the investment's extended term (up to 15 years), and has sufficient resources to sustain the loss of its entire investment should consider making the kinds of investments described in this Presentation.

By investing in a Portfolio, an investor gains exposure to the portfolio of private equity funds and is subject to the risks attendant to such investment portfolio. The following are among the risks applicable to an investment in a Portfolio:

Recent Developments in Financial Services Industry and Impact on Morgan Stanley. Since 2007, U.S. and global financial markets have illustrated extraordinary and unprecedented uncertainty, resulting in instability for financial services companies. A number of very high profile and significant transactions and events have occurred with respect to participants in the financial services industry, including the failure or forced sale of certain banks and other financial services businesses and broad scale market intervention by governments in the U.S. and abroad. Moreover, the global credit markets continue to experience substantial disruption and liquidity shortages and financial instability continues to exist both within and outside the U.S.

In light of such market turmoil and the overall weakening of the financial services industry, Morgan Stanley's financial condition may be adversely affected and it may be subject to legal, regulatory, reputational and other unforeseen risks that could have an adverse affect on Morgan Stanley's business and operations. To the extent that any such events occur, Morgan Stanley, its affiliates and employees may be unable to fulfill their funding obligations to the Portfolio, one or more of the Portfolio's key investment professionals may cease to be associated with the Portfolio and the Portfolio may suffer other adverse consequences, each of which could adversely affect the business of the Portfolio, restrict the Portfolio's investment activities and impede the Portfolio's ability to effectively achieve its investment objectives. In addition, the cost and availability of funding available to the Portfolio may be adversely affected by illiquidity and wide credit spreads in the credit markets. Continued turbulence in the U.S. and international markets and economy may adversely affect the Portfolio.

General. The investment strategies of any or all of the Underlying Funds in which the Portfolio may invest may include highly illiquid investments. AIP will not have the ability to direct or influence the management of the Underlying Funds or the investment of their assets. Because of the specialized nature of the AIP's Portfolio, investment in the Portfolio may not be suitable for certain investors and, in any event, an investment in the Portfolio should constitute only a limited part of an investor's total portfolio. There can be no assurance that the Portfolio will return a profit or that cash will be available for distributions.

Reliance on AIP. The success of a Portfolio will be highly dependent on the financial and managerial expertise of AIP and their expertise in the relevant markets. The quality of results of AIP will depend on the quality of their personnel. While AIP believes that the present personnel of AIP are outstanding, there are risks that death, illness, disability, change in career or new employment of such personnel could adversely affect results of a Portfolio. The Limited Partners will not make decisions with respect to the acquisition, management, disposition or other realization of any investment, or other decisions regarding AIP's businesses and portfolios. During any period in which assets of the Portfolio are subject to the fiduciary provisions of ERISA, AIP may be required to take certain actions that are not in the interest of non-ERISA investors or to refrain from actions that are in the interest of non-ERISA investors.

Conflicts of Interest. As a diversified global financial services firm, Morgan Stanley engages in a broad spectrum of activities including financial advisory services, asset management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and other activities. In the ordinary course of business, Morgan Stanley engages in activities in which Morgan Stanley's interests or the interests of its clients may conflict with the interests of the Portfolio or the limited partners.

Summary of Risk Factors, (con't)

Identification and availability of investment opportunities. The success of the Underlying Fund, and in turn, the success of a Portfolio as a whole depends on the identification and availability of suitable investment opportunities. The availability of such investment opportunities will be subject to market conditions and other factors outside the control of the Portfolio and the Underlying Funds. There can be no assurance that the Underlying Funds will be able to identify sufficient attractive investment opportunities to meet their investment objectives.

Illiquidity of Interests; Limitations on Transfer; No Market for Limited Partner Interests. A limited partner will not be permitted to transfer its interest without the consent of AIP. Furthermore, the transferability of an interest will be subject to certain restrictions contained in the agreement of limited partnership of the Portfolio, and will be affected by restrictions imposed under applicable securities laws. AIP will not consent to any transfer or other disposition that could cause the Portfolio to be treated as a "publicly traded partnership" under the Internal Revenue Code. There is currently no market for the interests, and it is not contemplated that one will develop. The interests should only be acquired by investors able to commit their funds for an indefinite period of time, as the term of the Portfolio could continue for up to 15 years. In addition, there are very few situations in which a limited partner may withdraw from the Portfolio.

Illiquid investments. The investments of the Underlying Funds generally will be subject to legal or other restrictions on transfer or will be investments for which no liquid market exists. As a consequence, an Underlying Fund may not be able to sell its investments when it desires to do so or to realize what it perceives to be their fair value in the event of a sale.

Adverse Consequences of Default. A limited partner of a Portfolio in default with respect to its obligation to fund required capital contributions to the Portfolio may expect to experience material adverse effects on its investment. As more fully described in the Portfolio's partnership agreement, when a limited partner defaults, AIP, in its sole discretion, may cause the defaulting limited partner to forfeit its entire interest in a Portfolio, including distributions to which the defaulting limited partner may otherwise have been entitled and/or forfeit some or all of its interest. A defaulting limited partner may also lose any rights to participate in future investments of the Portfolio made or committed to be made after the event of default or be forced to sell its interest.

Long-term investment commitment. The Underlying Funds may require several years to invest their capital commitments including those from the Portfolio.

Risk of Loss. There can be no assurance that the operations of a Portfolio will be profitable, that a Portfolio will be able to avoid losses or that cash from operations will be available for distribution to the Limited Partners. The possibility of partial or total loss of capital of the Portfolio exists, and prospective investors should not subscribe unless they can readily bear the consequences of a complete loss of their investment. The Portfolio will have no source of funds from which to pay distributions to the Limited Partners other than income and gains received on Portfolio Investments and the return of capital. Any losses in the Portfolio are borne solely by investors in the Portfolio and not by Morgan Stanley or its affiliates.

Valuations. Because there is no public market for private equity investments, they are difficult to value. This difficulty is increased when purchasing a portfolio of interests in private equity funds, as the portfolio will lack the benefit of financial statements and periodic company updates originated from a common investment manager. The overall performance of a portfolio of private equity funds will be affected by the acquisition price paid by the portfolio of private equity funds for its direct or indirect interests in portfolio investments, which will be subject to negotiation with the sellers of the interests. In addition, while the performance of the investment manager will affect the purchase price paid for the interests, the historical performance of investment managers is not a guarantee or prediction of their future performance, which can vary considerably. Therefore, valuations of investments are inherently subjective to a certain extent. Investors should be aware that there may exist a conflict of interest to the extent that a Morgan Stanley entity is performing valuations for a portfolio of private equity funds.

Summary of Risk Factors, (con't)

Valuation Analysis Undertaken by AIP. AIP may perform valuations for a Portfolio. In identifying certain potential Portfolio Investments for such Portfolio, AIP may seek to purchase interests at a discount to what it believes to be the fair market value of the interests. In order to determine the fair market value of an interest, AIP expects to analyze comparable transactions and publicly traded comparisons and utilize other analytical methods. However, given the nature of certain Portfolio Investments, there is no guarantee that any such analysis undertaken by AIP will reflect a value that is a discount to the fair market value that would be determined by a third party. It is possible that a third party would conclude that the fair market value of the interest is the amount actually paid by the Portfolio, rather than AIP's belief as to the fair market value of the interest. In addition, since the Portfolio generally intends to retain the interests, fair market value is not intended to reflect the value at which the Portfolio could sell the interest. Investors should be aware that there may exist a conflict of interest to the extent that a Morgan Stanley entity is performing valuations for the Portfolio.

Multiple levels of expense. A portfolio of private equity funds and the underlying funds in which it invest incur their own management and/or administrative costs and expenses, as well as carried interest payments on realized and, in the case of underlying funds, possibly unrealized appreciation and other income. These expenses will result in greater expense to the limited partners than if the limited partners were able to invest directly in the underlying funds.

Competition. Numerous other private equity investment funds have recently raised, or are in the process of raising, new capital for investments. This new capital increases competition for attractive private equity investments and could make it more difficult for the Underlying Funds to achieve their objectives, and may result in the failure of the Underlying Funds to successfully identify, structure, and complete investments.

Political Risks. Investments made by the Underlying Funds and the Portfolio may be subject to changing political environments, regulatory restrictions and changes in government institutions and policies, any of which could adversely affect such investments.

Economic Risk. Changes in policy with regard to taxation, fiscal and monetary policies, repatriation of profits and other economic regulations are possible any of which could have an adverse effect on Portfolio or an Underlying Fund's investments.

Emerging Markets. A Portfolio and certain Underlying Funds may invest in assets in emerging markets. Investing in emerging markets involves additional risks and special considerations not typically associated with investing in other more established economies or securities markets.

Regulation as a Bank Holding Company. On September 21, 2008, Morgan Stanley obtained approval to become a bank holding company (a "BHC") under the U.S. Bank Holding Company Act of 1956, as amended (the "BHCA") upon the conversion of its wholly owned indirect subsidiary, Morgan Stanley Bank, from a Utah industrial bank to a national bank. Concurrent with this conversion, Morgan Stanley became a "financial holding company" (a "FHC") under the BHCA, which is a status available to BHCs that meet certain criteria. FHCs may engage in a broader range of activities than BHCs that are not FHCs. However, the activities of FHCs and their affiliates remain subject to certain restrictions imposed by the BHCA and related regulations. Because Morgan Stanley is deemed to "control" the Fund within the meaning of the BHCA, these restrictions are expected to apply to the Fund as well. Accordingly, the BHCA and other applicable banking laws, rules, regulations and guidelines, and their interpretation and administration by the appropriate regulatory agencies, may restrict the transactions and relationships between AIP, Morgan Stanley and their affiliates, on the one hand, and the Fund, on the other hand, and may restrict the investments and transactions by, and the operations of, the Fund.

For example, the BHCA regulations applicable to Morgan Stanley and the Fund may, among other things, restrict the Portfolio's ability to make certain investments, impose a maximum holding period on some or all of the Portfolio's investments, restrict AIP's ability to participate in the management and operations of the companies in which the Portfolio invests, and restrict the ability of Morgan Stanley to invest in the Fund. In addition, certain BHCA regulations may require aggregation of the positions owned, held or controlled by related entities. Thus, in certain circumstances positions held by Morgan Stanley and its affiliates (including AIP) for client and proprietary accounts may need to be aggregated with positions held by the Portfolio. In this case, where BHCA regulations impose a cap on the amount of a position that may be held, Morgan Stanley may utilize available capacity to make investments for its proprietary accounts or for the accounts of other clients, which may require the Portfolio to limit and/or liquidate certain investments.

These restrictions may materially adversely affect the Portfolio by, among other things, affecting AIP's ability to pursue certain strategies within the Portfolio's investment program or trade in certain securities. Moreover, Morgan Stanley may cease in the future to qualify as an FHC, which may subject the Portfolio to additional restrictions or may cause AIP to dissolve the Portfolio. Moreover, there can be no assurance that the bank regulatory requirements applicable to Morgan Stanley and the Portfolio will not change, or that any such change will not have a material adverse effect on the Portfolio.

Summary of Risk Factors, (con't)

At any time (including prior to the initial closing, Morgan Stanley may, in its sole discretion, restructure the Fund or AIP in order to reduce or eliminate the impact or applicability of these bank regulatory restrictions on the Portfolio or other funds and accounts managed by AIP and its affiliates. Morgan Stanley may seek to accomplish this result by causing another entity to replace AIP as the Portfolios General Partner, transferring ownership of AIP, reducing the amount of Morgan Stanley's investment in the Portfolio (if any), or any combination of the foregoing, or by such other means as it determines in its sole discretion. Any such transferee may be unaffiliated with Morgan Stanley. In connection with any such change, AIP may in its sole discretion assign its right to receive carried interest or cause another entity to be admitted to the Portfolio for the purpose of receiving carried interest.

Dodd-Frank Act and The Volcker Rule. Final regulations ("Implementing Regulations") to implement Section 619 of the Dodd-Frank Act, commonly known as the "Volcker Rule," were issued by the U.S. Federal Reserve and other U.S. federal financial regulators in December 2013. The Volcker Rule and the Implementing Regulations prohibit "banking entities" from sponsoring and investing in "covered funds," except as permitted pursuant to certain available exemptions. In addition, a "banking entity" may not enter into certain so-called "covered transactions," as discussed further below, with any "covered fund" that the banking entity sponsors, organizes and offers or for which the banking entity serves as investment manager, investment adviser or commodity trading adviser. The term "covered fund" includes private-equity funds that are privately offered in the United States and that rely on Sections 3(c)(1) or 3(c)(7) of the Investment Company Act to avoid being treated as "investment companies" under the Act. Concurrently with the issuance of the Implementing Regulations, the Federal Reserve issued an order making the Volcker Rule's restrictions effective on July 21, 2015 (the "Compliance Deadline"). Morgan Stanley and its affiliates will be required to comply with the Volcker Rule's restrictions by the Compliance Deadline unless the Federal Reserve, by rule or (to the extent that Morgan Stanley so requests) by order, grants one or more potentially available extensions. There can be no assurances that Morgan Stanley will request any such extensions and, even if requested, that any such extensions will be granted, but extensions potentially could allow Morgan Stanley and its affiliates several additional years before they are required to comply with certain aspects of the Volcker Rule and the Implementing Regulations. The Volcker Rule and the Implementing Regulations impose a number of restrictions on Morgan Stanley and its affiliates that could affect the Portfolio. For example, to sponsor and invest in the Portfolio, Morgan Stanley believes that it will need to comply with the Implementing Regulations' "asset management" exemption to the Volcker Rule's prohibition on sponsoring and investing in covered funds. Under this exemption, investments made by Morgan Stanley (aggregated with certain affiliate and employee investments) in the Portfolio will be limited to 3% of the Portfolio's total ownership interests, measured by reference to both the number of ownership interests and the fair market value of such ownership interests (the "per-fund limit"). To the extent that Morgan Stanley holds an ownership interest in any feeder funds, the per-fund limit will be calculated at the Portfolio level, including any investment in the feeder funds on a pro rata basis. In addition, total investments in covered funds by Morgan Stanley (aggregated with certain affiliate and employee investments) in reliance on the asset management exemption and certain other exemptions are limited to 3% of Morgan Stanley's Tier 1 capital (the "aggregate investment limit"). A change in the Tier 1 capital of Morgan Stanley may mean that retention of some or all of the ownership interest in the Portfolio by Morgan Stanley or certain of its affiliates and employees would violate the aggregate investment limit. In addition, the withdrawal or default of an investor in the Portfolio may cause a violation of the per-fund limit by Morgan Stanley. To the extent that the retention of an interest in the Portfolio or further investment in the Portfolio by Morgan Stanley or certain of its affiliates and employees would result in a violation of either the per-fund limit or the aggregate investment limit, then Morgan Stanley and certain of its affiliates and employees may be required to dispose, transfer or otherwise reduce some or all of its interests in the Portfolio or may be prohibited, entirely or partially, from making further investments in the Portfolio. Other Volcker Rule restrictions also will apply. As noted above, the Volcker Rule and the Implementing Regulations will restrict Morgan Stanley and its affiliates from entering into "covered transactions," as defined in Section 23A of the U.S. Federal Reserve Act, as amended, with or for the benefit of the Portfolio. For example, Morgan Stanley will be prohibited from providing loans and hedging transactions with extensions of credit or other credit support to the Portfolio. In addition, further restrictions and limitations on Morgan Stanley, the Fund, the General Partner and the Manager may emerge as additional regulatory guidance and interpretations are provided on the Volcker Rule and the Implementing Regulations. To this end, and despite the issuance of the Implementing Regulations, certain aspects of the Volcker Rule remain unclear and susceptible to alternative interpretations. The foregoing is, thus, not an exhaustive discussion of the potential risks the Volcker Rule poses. In addition, the Portfolio (and Morgan Stanley's relationship with the Portfolio) may be affected by rules to be issued by U.S. federal banking, securities and commodities regulators pursuant to the Volcker Rule and other provisions of the Dodd-Frank Act, including rules that are expected to prohibit certain conflicts of interest and material exposures to high risk assets and high-risk investment strategies by bank holding companies and rules designed to ensure that losses in the Portfolio are borne solely by investors and not by Morgan Stanley and its affiliates. **Any prospective investor should consult its own legal counsel to determine how it could be impacted by the Volcker Rule, the Implementing Regulations and other aspects of the Dodd-Frank Act.**

A complete discussion of Risk Factors and Conflicts of Interests is available in the Private Placement Memorandum/Memoranda of the Portfolio.

Summary of Risk Factors, (con't)

This is a summary of various risks associated with investing in portfolios of hedge fund investments. This summary is not, and is not intended to be, a complete enumeration or explanation of the risks involved. The recipient should consult with its own advisors before deciding whether to invest in these strategies. In addition, to the extent that the investment program of such a portfolio changes and develops over time, additional risk factors not described here may apply. Only a recipient who understands the nature of the investment, does not require more than limited liquidity in the investment, and has sufficient resources to sustain the loss of its entire investment should consider making the kind of investments described in this Presentation.

By investing in a fund of hedge funds, an investor gains exposure to the investments included in the portfolio of the fund of hedge funds and is subject to the risks attendant to such investment portfolio.

The following are among the risks applicable generally to a portfolio of hedge fund investments:

Reliance on Third-Party Management. The goal of investing in a portfolio of hedge funds managed by the Investment Adviser is to seek capital appreciation. Hedge funds selected for the portfolio are managed by third-party managers unaffiliated with the Investment Adviser over which the Investment Adviser does not exercise control.

Wide Scope of Investment Options Available to Third-Party Managers. Hedge funds may invest and trade in a wide range of instruments and markets and may pursue various investment strategies. Although hedge funds will primarily invest and trade in U.S. and non-U.S. equity and debt securities, they may also invest and trade in equity-related instruments, currencies, financial futures, and debt-related instruments. In addition, hedge funds may sell securities short and use a wide range of other investment techniques. Hedge funds are generally not limited in the markets in which they may invest, either by location or type, such as U.S. or non-U.S. markets or large- or small-capitalization companies, or in the investment discipline which their investment managers may employ, such as value or growth strategies or bottom-up or top-down analysis.

Hedge funds may use various investment techniques for hedging and non-hedging purposes. A hedge fund may, for example, sell securities short, purchase and sell options and futures contracts, and engage in other derivative transactions. The use of these techniques may be an integral part of the hedge fund's investment strategy and may involve certain risks. Hedge funds may use leverage, which also entails risk.

Performance-Based Compensation. In addition to asset-based fees based on the hedge fund's net assets under management, a hedge fund's investment manager will typically charge each of the hedge fund's investors a performance or incentive fee or allocation based on net profits of the hedge fund which it manages. The receipt of a performance or incentive fee or allocation by a hedge fund's investment manager may create an incentive for the hedge fund's investment manager to make investments which are riskier or more speculative than those which might have been made in the absence of such an incentive.

Lack of Transparency. Hedge funds are not registered as investment companies with the U.S. Securities and Exchange Commission (the "SEC") under the Investment Company Act of 1940 (the "ICA"), and investors in hedge funds will not have the benefit of the protections afforded by the ICA to investors in registered investment companies. Although the Investment Adviser will periodically receive information from each hedge fund in which the portfolio is invested regarding such hedge fund's investment performance and investment strategy, the Investment Adviser may have little or no means of independently verifying this information. Hedge funds are not contractually or otherwise obligated to inform their investors of details surrounding proprietary investment strategies. In addition, the Investment Adviser has no control over the investment management, brokerage practices, custodial arrangements, or operations of hedge funds and must rely on the experience and competence of each hedge fund's investment manager in these areas.

No ICA Diversification. Each Fund named and described in this Presentation which is registered with the SEC under the ICA is classified as a non-diversified management investment company under the ICA. Consequently, percentage limitations imposed by the ICA on the portion of Fund assets which may be invested in the securities of any single issuer will not apply. As a result, the Fund's investment portfolio may be subject to greater risk and volatility than if it invested in the securities of a broader range of issuers.

Multiple Levels of Fees and Expenses. By investing in a portfolio of hedge funds managed by the Investment Adviser, an investor bears its proportionate share of the asset-based fees and the Performance Incentive payable to the Investment Adviser and any of its affiliates, as the case may be, as well as other expenses of the portfolio. An investor, however, also indirectly bears its proportionate share of the asset-based fees, performance or incentive fees or allocations, and other expenses borne by investors in the hedge funds included in the portfolio. An investor which meets the eligibility conditions imposed by the respective hedge funds included in the portfolio, including minimum initial investment requirements which may be substantially higher than those imposed by any Fund, could avoid the extra layer of fees and expenses by investing directly in those hedge funds.

Summary of Risk Factors, (con’t)

Independence of Hedge Funds’ Investment Managers. A hedge fund’s investment manager will receive any performance or incentive fees or allocations to which it is entitled, without regard to both the performance of the other hedge funds in the portfolio and the performance of the overall portfolio. An investment manager to a hedge fund with positive performance may receive compensation, even if the overall portfolio’s aggregate returns are negative.

Potential for Increased Transactions Costs. Investment managers of the hedge funds included in the portfolio make investment decisions independently of each other. Consequently, at any particular time, one hedge fund in the portfolio may be purchasing interests in an issuer which at the same time are being sold by another hedge fund in the portfolio. Investment by hedge funds in this manner could cause the overall portfolio to incur certain transaction costs indirectly without accomplishing any net investment result.

Limited Liquidity of Hedge Funds. Additional investments in, or withdrawals from, the hedge funds in the portfolio may be made only at certain times, as specified in the governing documents of the respective hedge funds. As a result, before investments in hedge funds are effected or in furtherance of the portfolio’s objectives generally, some assets held in the portfolio may temporarily be from time to time cash, cash equivalents, or high-quality fixed-income securities and money market instruments (whether or not managed by affiliates of the Investment Adviser).

Limited Voting Rights of Investors. A hedge fund typically restricts the ability of its investors to vote on matters relating to the hedge fund. As a result, investors in the hedge fund will have no say in matters which could adversely affect their investment, via the portfolio, in the hedge fund. Additionally, for regulatory purposes related to the Investment Adviser’s management of certain funds registered with the SEC under the ICA, the Investment Adviser may enter into contractual relationships under which other funds managed by the Investment Adviser (including the Funds), as well as the registered funds managed by the Investment Adviser, irrevocably waive their respective voting rights (if any) to vote interests in underlying hedge funds.

Distributions in Kind. Hedge funds may distribute securities in kind to investors. Securities distributed in kind may be illiquid or difficult to value. In the event that a hedge fund were to make such a distribution in kind to a Fund, the Investment Adviser would seek to dispose of the securities so distributed in a manner which is in the best interests of such Fund.

Reliance on Third-Party Managers with Respect to Asset Valuation. Certain securities in which a hedge fund invests may not have a readily ascertainable market price and will be valued by the hedge fund’s investment manager. Such a valuation generally will be conclusive, even though the hedge fund’s investment manager may face a conflict of interest in valuing the securities, inasmuch as the value of such securities will affect the compensation payable to the hedge fund’s investment manager. In most cases, the Investment Adviser will have no ability to assess the accuracy of any such valuation. In addition, the net asset values or other valuation information received by the Investment Adviser from hedge funds will typically be unaudited and subject to revision until completion of the annual audits of the respective hedge funds. Revisions to the gain and loss calculations will be an ongoing process, and no net capital appreciation or depreciation figure can be considered final until completion of the annual audits of the respective hedge funds.

Regulation as a Bank Holding Company. Morgan Stanley elected in September 2008 to be regulated as a Bank Holding Company (a “BHC”) under the U.S. Bank Holding Company Act of 1956, as amended (the “BHCA”), and the Federal Reserve granted Morgan Stanley’s application for “financial holding company” (“FHC”) status under the BHCA. FHC status is available to BHCs which meet certain criteria. FHCs may engage in a broader range of activities than BHCs which are not FHCs.

Certain BHCA regulations may also require aggregation of the positions owned, held, or controlled in client and proprietary accounts by Morgan Stanley and its affiliates (including without limitation the Investment Adviser) with positions held by the Fund (and, in certain instances, one or more underlying hedge funds). Moreover, Morgan Stanley may cease in the future to qualify as an FHC, which may subject the Fund to additional restrictions or cause the Investment Adviser to recommend that the Fund’s board of directors or trustees vote to dissolve the Fund. Additionally, there can be no assurance either that the bank regulatory requirements applicable to Morgan Stanley and the Fund will not change or that any such change will not have a material adverse effect on the Fund.