AIP Series Trust

AIP Dynamic Alpha Capture Fund

The **AIP Dynamic Alpha Capture Fund** (the "Fund") seeks to capture alpha and deliver its benefits to investors in a liquid and cost-efficient manner by investing in what we believe are the most promising stock holdings of a select group of top-performing active managers. We also actively manage several hedging strategies in an effort to mitigate equity market risk.

Market Review

December continued the theme for the year of market moves being largely dictated by major central bank announcements, Chinese growth trends and energy/commodity prices. First, the European Central Bank (ECB) announced an extra six months of quantitative easing (QE) and a further deposit rate cut. Given previous high expectations, the announcement disappointed markets, leading the euro to strengthen and equity markets to fall at the beginning of the month. Then, on December 16, the U.S. Federal Reserve Bank (Fed) boosted stocks by raising rates for the first time in nearly a decade, following positive domestic macroeconomic data. However, the rally was not sustained as oil declined below $40 a barrel. The MSCI World Index fell 1.76%, while the Barclays Global Aggregate Bond Index gained 0.53%, in U.S. dollar (USD) terms.

In developed market (DM) equities, Europe, as proxied by the MSCI Europe Index, led losses in both USD and local currency terms, declining 2.57% and 3.81%, respectively. Equities reacted negatively to the ECB announcement and political uncertainty caused by Spain's inconclusive election results. The U.S. outperformed, with the S&P 500 Total Return Index falling 1.58%. Meanwhile, emerging market (EM) equities lagged (MSCI EM Index USD -2.23%) their DM counterparts as continued weakness in commodity prices weighed on returns.

From a sector perspective, within the MSCI Index, energy and materials were the worst performing sectors, while health care, utilities and consumer staples were the only sectors to post positive, albeit modest, returns. Global large cap stocks outperformed small cap stocks and growth stocks beat value stocks.

With global monetary policy pulling in different directions, government bond returns managed to deliver low but positive returns. Further, different stages of the credit cycle and differing amounts of energy exposure resulted in wide performance differentials between U.S. and Europe. U.S. high yield and inflation-linked bonds underperformed as energy sector default risk rose and inflation remained benign given the continued decline in oil prices.

Commodities suffered, with only the industrial metals complex posting positive performance. Energy led the charge lower as oil approached its 2008 lows given the global glut. Further, the Organization of Petroleum Exporting Countries (OPEC) declared it would maintain its production unchanged despite the pressure from the group's poorer countries calling for an output cut to boost prices. In currency markets, the USD was weaker against most other major currencies with the U.S. Dollar Index (DXY) losing 1.92%.

Fund Review

The Fund returned -3.04% in December. The long-biased and activist strategies were the largest detractors to Fund performance. However, given the fall in the equity markets, the Fund's short overlay position in the S&P 500, designed to lower the Fund's overall beta to equities, and the short-biased strategy, added to Fund performance. In addition, the mean reversion strategy contributed positively, given the choppy nature of the equity market, only partly offsetting the negative returns from the small cap premium strategy.

Fund Positioning and Outlook

Overall positioning remained unchanged to that in the previous months. Given the increased uncertainty in the global growth picture, in particular that of China and the emerging economies, and the downward pressure on commodities, we believe equity markets will remain volatile and sensitive to growth and oil headwinds. During periods such as the current market environment, alpha driven or "stock-selection" strategies are more favorable. Within our hedging strategies, we continue to emphasize the small cap premium strategy as we believe that small cap stocks are likely to perform well in a strengthening US economy.

All data sourced from Bloomberg.

		ALLOCATION	
Selection Alpha	**Gross Exposure**	**Long**	**Short**
Long/Short Conviction	51.34%	43.07%	8.26%
Activist	29.23%	29.23%	
Systematic Alpha			
Small Cap Premium	10.77%	10.77%	
Mean Reversion	3.80%	3.80%	
Hedging	49.24%		49.24%
Total	**144.37%**	**86.87%**	**57.50%**

Data as of December 31, 2015

Performance (%) as of December 31, 2015 (Class I Shares at NAV)

	DEC	3 MONTHS	6 MONTHS	1 YEAR	SINCE INCEPTION 10/31/2014
AIP Dynamic Alpha Capture Fund	-3.04%	-0.86%	-6.48%	-7.04%	-5.76%
HFRX Global Hedge Fund Index	-1.33%	-0.61%	-4.85%	-3.64%	-3.03%

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month end performance figures, please visit morganstanley.com/im or call 1-800-548-7786. Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost. Short-term returns may not be indicative of the portfolio's long-term performance potential.

The gross expense ratio is 1.80% for Class I shares and the net expense ratio is 1.50%. Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived and/or expenses reimbursed. These waivers and/or reimbursements will continue for at least one year from the date of the applicable Fund's current prospectus (unless otherwise noted in the applicable prospectus) or until such time as the fund's Board of Trustees acts to discontinue all or a portion of such waivers and/or reimbursements. Absent such waivers and/or reimbursements, returns would have been lower. Expenses are based on the Fund's current prospectus. The minimum initial investment is $1,000,000 for Class I and Class IS shares and $2,500 for Class A and Class C shares. Class A shares have a 5.50% maximum sales charge.

Returns are net of fees and assume the reinvestment of all dividends and income. Returns for less than one year are cumulative (not annualized). Performance for one year or more is based on average annual total returns. The returns are reported for Class I shares. Performance for other share classes will vary.

All data sourced from Bloomberg.

The views, opinions, forecasts and estimates expressed are those of the portfolio management team at the time of writing and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. These comments are not representative of the opinions and views of the firm as a whole. Holdings and sectors/region weights are subject to change daily. All information provided is for informational purposes only and should not be deemed as a recommendation to buy or sell securities in the sectors and regions referenced.

DEFINITIONS OF FINANCIAL TERMS AND INDICES

Alpha. The excess return of an asset not explained by systemic (market) risk.

Beta. A measure of the sensitivity of the return of an investment to the returns in a market with which it is being compared as a hole. A beta of 1 indicates that an investment's price tends to move in sync with the market. A beta greater than 1 indicates that an investment's price tends to be more sensitive to market movements, while a beta less than 1 indicates that an investment's price tends to be less sensitive to market movements. A beta less than 0 would indicate an inverse relation to the market.

Selection Alpha. Proprietary strategies based on an analysis of investment patterns and decisions of active managers that have historically consistently created value.

Systematic Alpha. Rules-based trading strategies seeking to exploit persistent sources of value creation or capture returns from specific risks associated with certain assets and/or asset classes.

Barclays Global Aggregate Bond Index. A free float-adjusted market capitalization weighted index designed to measure the performance of global investment-grade, fixed income markets.

MSCI Emerging Markets Index. A free float-adjusted market capitalization index designed to measure equity market performance of emerging markets.

MSCI World Net Total Return. A free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed markets.

S&P 500 Total Return Index. Widely regarded as the standard for measuring large-cap U.S. stock market performance, this popular index includes a representative sample of 500 leading companies in leading industries.

U.S. Dollar Index (DXY). A measure of the value of the USD relative to the majority of its most significant trading partners.

HFRX Global Hedge Fund Index. The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of eight strategies; convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

While the HFRI Indices are frequently used, they have limitations (some of which are typical of other widely used indices). These limitations include survivorship bias (the returns of the indices may not be representative of all the hedge funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and the index may omit funds, the inclusion of which might significantly affect the performance shown. The HFRI Indices are based on information self-reported by hedge fund managers that decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways.

Al indices referenced are unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

RISK CONSIDERATIONS

Equity securities. In general, equity securities' values also fluctuate in response to activities specific to a company. **Alternative asset class risk.** The alternative asset class is highly volatile and involves the risk of potentially significant fluctuations in the value of the Fund shares. **Exchange traded funds (ETFs).** ETFs shares have many of the same risks as direct investments in common stocks or bonds and their market value will fluctuate as the value of the underlying index does. As a shareholder in an ETF, the Fund would bear its ratable share of that entity's expenses while continuing to pay its own fees and expenses. As a result, the Fund and its shareholders will be absorbing duplicate levels of fees. **Foreign and emerging market securities.** Investments in foreign markets entail special risks such as currency, political, economic, and market risks. The risks of investing in emerging market countries are greater than the risks generally associated with investments in foreign developed countries. **Small- and mid-cap stocks.** Stocks of small-and medium-sized companies entail special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. The use of **leverage** may increase volatility in the Fund. **Momentum strategy.** A style of investing that emphasizes investing in securities that have had higher recent price performance compared to other securities and is subject to the risk that these securities may be more volatile than a broad cross-section of securities or that the returns on securities that have previously exhibited price momentum are less than returns on other styles of investing or the overall stock market. **Convergence strategy.** A style of investing that seeks to take long positions in securities believed to be undervalued and short positions in securities believed to be overvalued. In the event that the perceived mispricings underlying these positions fail to converge toward, converge more slowly than anticipated or diverge further from, valuations expected by the Fund, the Fund may incur significant losses. **Carry strategy.** A carry strategy depends on the exchange rates and interest rates applicable to the targeted currencies and if the applicable exchange rates or interest rates move against the direction targeted, the performance of the strategy may decline. **Risk premia strategy.** The risks associated with seeking to capture systematic risk premiums may be realized and, as a result, the Fund may suffer substantial losses. The Adviser may also fail to isolate the targeted risk premiums and the Fund may be exposed to unintended correlation with the broader equity markets. **Derivative instruments.** Derivatives can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the Fund's performance. **Futures.** Small price movements in the instrument underlying a futures position may result in immediate and substantial losses to the Fund. **Options.** The use of options involves skill and judgment and even a well-conceived options transaction may be unsuccessful because of market behavior or unexpected events. **Swaps.** May result in losses if interest rate, foreign currency exchange rates or credit quality changes are not correctly anticipated by the Fund or if the reference index, security or investments do not perform as expected. Swaps based on the credit of an underlying security are referred to as "credit default swaps." **Short positions.** The Fund may take short positions against certain securities through the use of swaps. In addition to the normal risks associated with derivatives, the Fund will suffer a loss if the value of a security it has taken a short position on rises instead of falling. **Non-diversification.** Non-diversified portfolios often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. **Form filings and public data.** Public filings used to implement portions of the Fund's strategy may render certain information stale or may not provide a complete picture of the holdings of a given investor. In addition, it is possible other investors are also monitoring these filings and invest accordingly, which could result in inflation of share prices. **Model risk.** Investments selected using proprietary quantitative models may perform differently than expected and technical issues in the construction and implementation of the models may occur. If the data used by the models proves to be incorrect or incomplete, the Fund may suffer losses.

Please consider the investment objective, risks, charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund and can be obtained by contacting your financial advisor or by downloading one at morganstanley.com/im. Please read the prospectus carefully before investing.

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