Alternative Investment Partners Absolute Return Fund STS

Morgan Stanley Alternative Investment Partners — **October 31, 2026**

Alternative Investment Partners Absolute Return Fund STS (the "Fund") is a fund of hedge funds that through its ultimate master fund, Alternative Investment Partners Absolute Return Fund ("ARF") invests substantially all its assets in private investment funds (commonly referred to as hedge funds) that are managed by investment managers who employ different absolute return strategies in pursuit of attractive risk-adjusted returns (returns adjusted to take into account volatility of those returns) consistent with the preservation of capital and not highly correlated with fixed income or equity indices. "Absolute Return" refers to a broad class of investment strategies that are managed without reference to the performance of equity, debt and other markets. The Fund is available only to tax-exempt investors or tax-deferred accounts such as endowment funds, charitable trusts, IRAs and 401(k)s. The Fund is structured to provide these investors access to this market without incurring unrelated business income tax ("UBTI"). ARF STS uses a pass-through structure by investing substantially all of its assets in an offshore feeder, AIP Absolute Return Fund LDC, which in turn invests substantially all its assets in ARF, its master fund. The Fund operates as a closed-end, non-diversified management investment company registered under the Investment Company Act of 1940.This information is for informational purposes only and is not an offer, or a solicitation of an offer, to buy or sell any security or strategy. No investment should be made without proper consideration of the risks and advice from your tax, accounting, legal or other advisers you deem appropriate. All data herein is as of the end of the month shown above.

ARF Net Asset Value:	$286,084,425
Net Asset Value Per Share:	$2,540.74
ARF Underlying Funds: (>1% of NAV)	23
ARF Leverage:	1.33x

Investment in the Fund involves significant risks due to, among other things, the illiquidity of the shares, the nature of ARF's investments and actual and potential conflicts of interest, including the payment of fees to persons marketing the Fund and of revenue sharing between ARF's Adviser (as defined below) and certain of its affiliates. There can be no assurance that the Fund will achieve its investment objective or that there will be any return of capital. Investors should have the financial ability and willingness to accept the risks (including the risk of loss of the entire investment) for an indefinite period of time and should consult their financial, tax and accounting advisors regarding the appropriateness of making an investment in the Fund. This offering is open only to investors who meet certain criteria. Please refer to the prospectus for more detailed discussion of the risks and other considerations described below as well as additional risks. As the Fund's investment program develops and changes over time, an investment in the Fund may be subject to additional and different risk factors from those described herein.

Investment Performance

	Current Month	QTD	YTD	Cumulative Since Inception	Annualized 1 Yr Return	3 Yr Return	5 Yr Return	10 Yr Return	Since Inception Return	Since Inception Volatility
Portfolio										
Fund Net	-1.60	-1.60	4.64	168.38	7.42	8.83	7.64	6.01	4.85	5.20
Financial Indices										
HFRI FoF: Diversified Index	-1.73	-1.73	4.85	114.50	6.78	9.40	5.05	5.57	3.73	4.94
Citi World Govt Bond Index	1.38	1.38	-1.46	45.79	-1.09	4.00	-2.55	-0.31	1.83	6.65
S&P 500 Index	-0.87	-0.87	11.77	801.04	12.11	23.40	12.06	15.44	11.13	15.04

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. Performance figures are not audited and subject to change. Investment returns and principal value will fluctuate and the Fund shares, when repurchased by the Fund, may be worth more or less than their original cost.

Return does not include the impact of any sales charges, which would reduce returns. Refer to notes for benchmark/index descriptions.

Fund Information

Inception Date	September 1, 2006
ARF Investment Adviser	Morgan Stanley AIP GP LP
Structure	Delaware business trust
Minimum Initial Investment	$50,000
Minimum Subsequent Invest.	$25,000
Liquidity	Anticipated quarterly in parallel with ARF, subject to authorization by Board of Trustees, in an amount up to 15% of ARF's net asset value ("NAV").
Tax Reporting	Preliminary tax analysis in April; K-1 in August
Management Fee	1.00% per annum
Shareholder Servicing Fee	0.75% per annum
Upfront Placement Fee	Up to 3%

Fund net return is unaudited and subject to change and represents the total return based on information received from ARF's underlying managers. The return is equal to the change in value of the Fund, including capital appreciation and income, as a percentage of the beginning value. The amount earned is the difference between the beginning and ending values, adjusted for the net of all contributions and withdrawals. The rate of return is calculated on a time-weighted basis for all investments and is net of 1) underlying manager fees (see Top Ten Holdings disclosure on page 6 for additional information); 2) broker commissions and expenses related to trading and the administration of ARF's underlying managers' funds and the Fund; 3) the reinvestment of dividends and capital gains; 4) the 1.00% (1.50% prior to May 1, 2015) per annum management fee; 5) the 0.75% (0.25% prior to May 1, 2015) per annum shareholder servicing fee; and 6) operating expenses. Shares of the Fund were first sold to the public on September 1, 2006. Returns prior to September 1, 2006 represent the historical performance of ARF, starting on January 1, 2006, restated to reflect the 2.50% fee cap of ARF STS. The Adviser agreed to waive and/or reimburse ARF's expenses (other than extraordinary expenses) in order to cap ARF's total operating expenses at 2.25% for the period July 1, 2006 to June 30, 2007. If the cap had not been in effect, the annualized since inception return would have been 4.84%. For the period January 1, 2006 to June 30, 2006 an affiliate of the Adviser was the only investor in ARF.

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Monthly Performance (%)

Last 10 complete years. Refer to prior page for description of Fund net returns.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2026 Fund Net	1.08	0.30	-0.59	3.75	0.34	1.06	-0.48	-0.03	0.80	-1.60	-	-	**4.64**
2025 Fund Net	2.13	-0.04	1.32	1.49	1.45	-0.73	-1.06	0.74	0.27	1.81	1.17	1.47	**10.45**
2024 Fund Net	1.33	1.44	2.22	0.30	-0.34	1.20	-0.17	1.25	-0.66	0.76	2.00	0.88	**10.64**
2023 Fund Net	-0.96	1.36	-0.70	0.64	0.37	1.42	0.36	0.67	1.55	0.13	0.65	0.15	**5.75**
2022 Fund Net	-0.60	0.12	2.46	0.36	-0.99	-0.73	0.35	1.51	-0.08	1.11	-0.14	1.93	**5.38**
2021 Fund Net	-1.63	0.27	0.35	1.25	0.14	-0.22	0.99	2.70	0.85	-0.86	0.99	0.42	**5.32**
2020 Fund Net	0.07	-0.13	-6.22	1.68	2.20	2.08	0.83	2.54	0.14	1.06	1.84	3.47	**9.63**
2019 Fund Net	1.90	0.34	0.39	1.13	-1.19	1.23	0.44	-1.72	-0.39	0.53	0.78	1.99	**5.50**
2018 Fund Net	0.99	-1.09	0.14	1.26	0.18	0.00	-0.45	0.32	1.06	-2.26	-1.22	-0.86	**-1.98**
2017 Fund Net	0.44	0.67	0.20	0.59	0.54	-0.74	0.77	1.21	-0.41	0.78	-0.37	0.54	**4.29**
2016 Fund Net	-1.66	-1.72	-0.56	0.16	0.81	-1.41	1.30	0.34	0.03	0.49	0.65	0.34	**-1.30**

Return Analysis (Since Inception)

	Annualized Return (%)	Annualized Volatility (%)	Maximum Return (%)	Minimum Return (%)	Average Return (%)	Positive Months (%)	Maximum Drawdown (%)	Drawdown Duration (Months)	Downside Deviation (%)	Sharpe Ratio	Sortino Ratio
Fund Net	4.85	5.20	3.75	-8.24	0.41	69.60	-25.32	12	3.69	0.59	0.83
Financial Indices											
HFRI FoF: Diversified Index	3.73	4.94	3.71	-7.00	0.32	67.60	-21.75	14	3.46	0.39	0.56
Citi World Govt Bond Index	1.83	6.65	7.11	-5.88	0.17	54.00	-27.14	22	4.51	0.01	0.01
S&P 500 Index	11.13	15.04	12.82	-16.79	0.98	67.20	-50.95	16	9.86	0.62	0.95

All statistics and data are based on the net of fees returns of the Fund, inclusive of all annual Fund expenses disclosed in the Fund's prospectus, since inception (without sales charge). Refer to notes for Benchmark/Index descriptions.

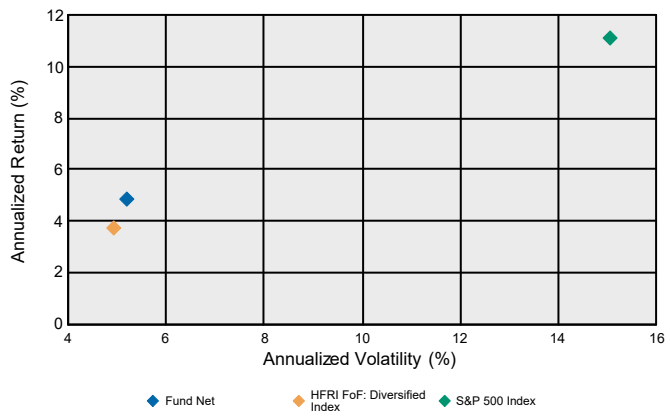
Annualized Volatility represents the standard deviation of monthly returns since inception.
Maximum and Minimum Monthly Returns represent the largest and smallest monthly change in the NAV of the Fund since inception.
Maximum Drawdown represents the worst period of "peak to valley" performance for the Fund, regardless of whether or not the drawdown consisted of consecutive months of negative performance.
Downside Deviation is similar to the standard deviation of monthly returns except it assumes the squared difference for positive monthly returns is zero. Downside deviation aims to isolate the negative portion of volatility.
Sharpe Ratio is a risk-adjusted measure developed by William F. Sharpe, calculated by dividing the Fund's excess return relative to the risk-free rate (defined as the rate of return of the Citi Three-Month U.S. Treasury Bill Index) by the standard deviation of the Fund's return. Citi Three-Month U .S. Treasury Bill Index is representative of yield averages of the last 3-month U .S. Treasury Bill issues.
Sortino Ratio is a risk-adjusted measure developed by Brian M. Rom, calculated by dividing the Fund's excess return relative to the risk-free rate (defined as the rate of return of the Citi Three-Month U.S. Treasury Bill Index) by the downside deviation of the Fund's return. Citi Three-Month U .S. Treasury Bill Index is representative of yield averages of the last 3-month U .S. Treasury Bill issues.

Beta/Correlation

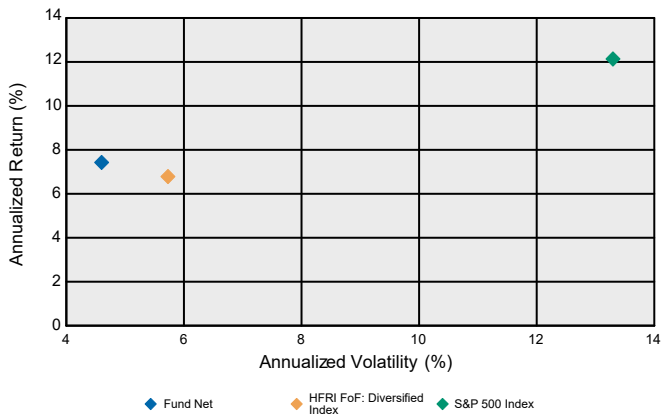
	One Year				Three Years				Since Inception			
	S&P 500 Total Return		Bloomberg Aggregate		S&P 500 Total Return		Bloomberg Aggregate		S&P 500 Total Return		Bloomberg Aggregate	
	Beta	Correlation	Beta	Correlation	Beta	Correlation	Beta	Correlation	Beta	Correlation	Beta	Correlation
Fund Net	0.24	0.68	-0.12	-0.12	0.09	0.31	-0.11	-0.16	0.18	0.51	-0.12	-0.10

Beta represents the Fund's volatility relative to the market. A beta of greater than 1.0 indicates that the Fund is more volatile than the market, and less than 1.0 is less volatile than the market. A negative beta indicates the Fund's volatility has an inverse relationship to the market.
Correlation represents the statistical relationship between the movement of the Fund's net returns and the stated variable.

Risk/Return Since Inception



Risk/Return Last 12 Months



Annualized returns are on the vertical axis and annualized standard deviations are on the horizontal axis. Data are based on net returns of the Fund (without sales charge).

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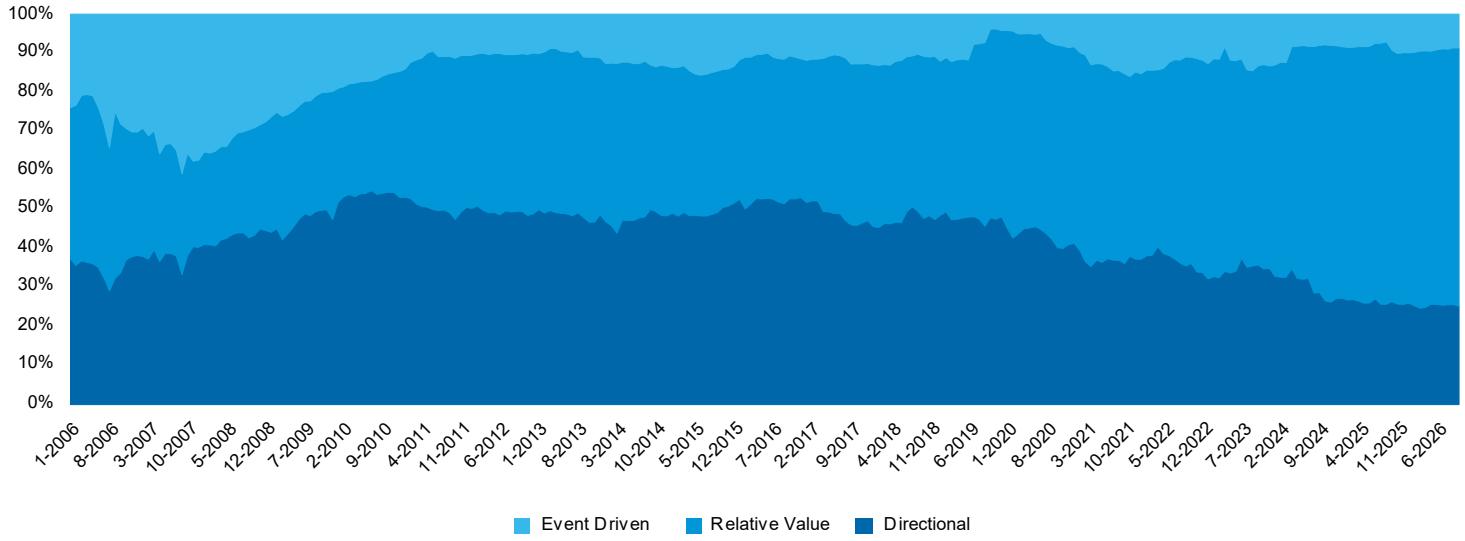
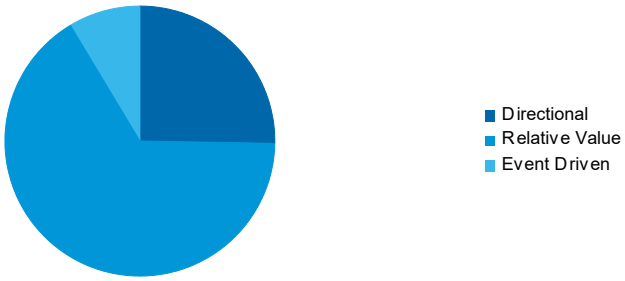
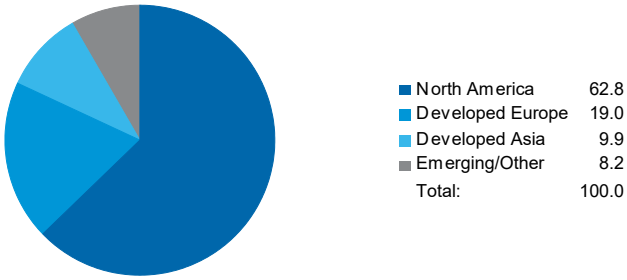
Top Level Strategy Allocation (%)



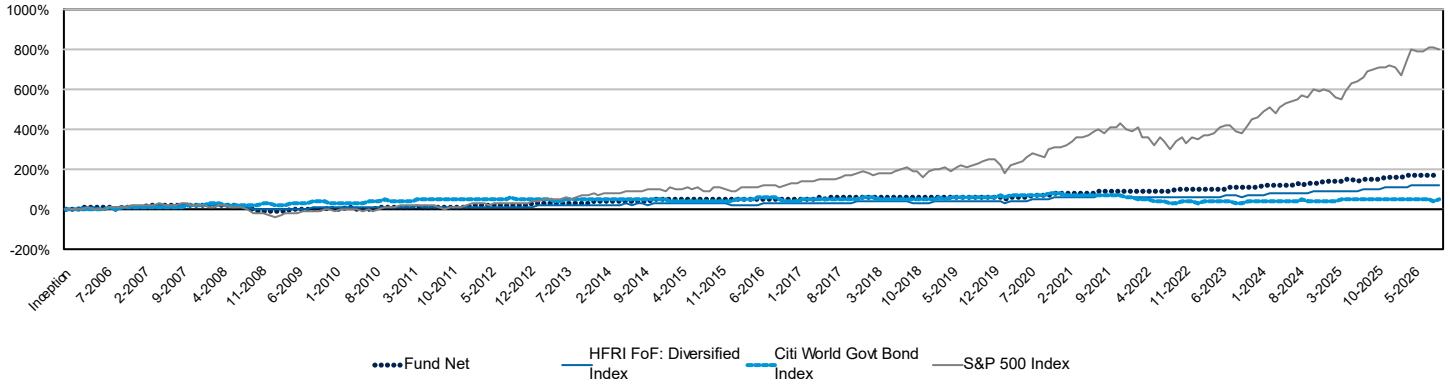
Strategy and Regional Allocations (%)

Directional	**25.2**
CTA/Managed Futures	10.7
Macro	8.4
Equity L/S Opportunistic	4.4
Other Directional	1.7
Relative Value	**66.2**
Statistical Arbitrage	31.3
Equity L/S High Hedge	23.9
Fixed Income Arbitrage	3.8
Relative Value Credit	3.3
Convertible Arbitrage	1.9
Volatility Arbitrage	1.9
Mortgage Arbitrage	0.1
Event Driven	**8.7**
Distressed	5.5
Event Driven Credit	3.2





Cumulative Performance Since Inception (January 1, 2006)



Refer to Notes for Strategy and Regional Allocation and Cumulative Performance Since Inception disclosures and hedge fund strategy descriptions.

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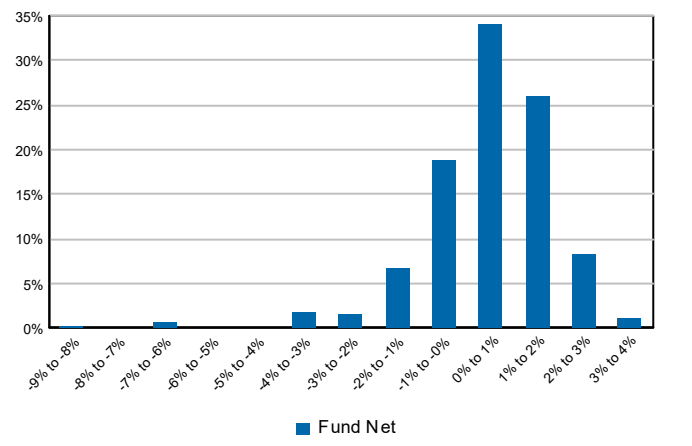
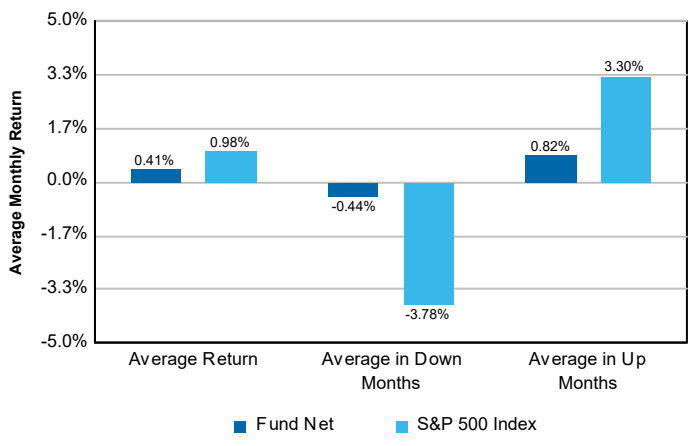
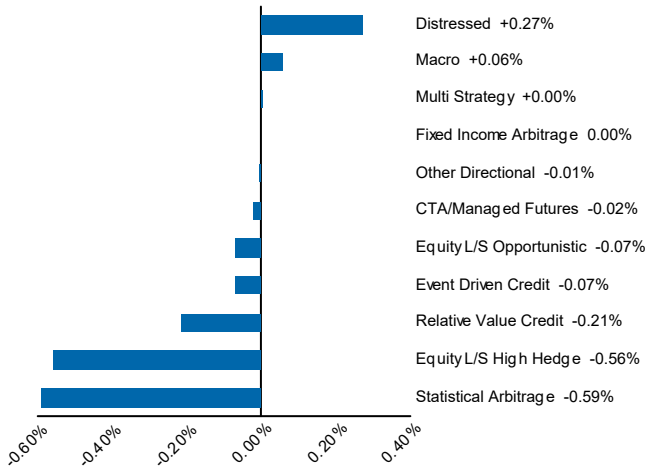
Distribution of Monthly Returns (Since Inception)



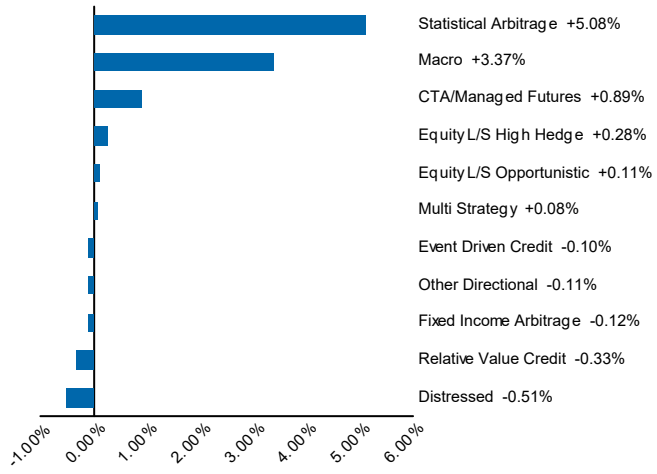
Performance in Up/Down Equity Markets (Since Inception)



Current Month Attribution by Strategy



Current Year-to-Date Attribution by Strategy



Current Year Attribution by High Level Strategy (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Directional	0.86	0.08	-0.60	1.62	0.77	0.69	0.15	0.04	0.66	-0.05	-	-
Event Driven	0.09	0.28	-0.22	0.18	-0.17	-0.38	-0.40	0.12	-0.31	0.20	-	-
Relative Value	0.52	0.31	0.62	2.35	0.20	1.12	0.02	0.20	0.93	-1.37	-	-

Top Ten Holdings

Holding	High Level Strategy	Strategy	%Weight
Undisclosed Fund	Relative Value	Statistical Arbitrage	18.57
D.E. Shaw Oculus Fund, L.L.C.	Directional	Macro	14.34
Undisclosed Fund	Directional	CTA/Managed Futures	10.74
Torus Feeder 2 LP	Relative Value	Statistical Arbitrage	8.88
Undisclosed Fund	Relative Value	Statistical Arbitrage	8.01
Holocene Advisors Fund LP	Relative Value	Equity L/S High Hedge	7.79
Alyeska Fund, L.P. - Series 2	Relative Value	Equity L/S High Hedge	5.45
Viking Global Equities LP	Directional	Equity L/S Opportunistic	5.39
Two Sigma Spectrum U.S. Fund, LP	Relative Value	Statistical Arbitrage	5.09
Broad Reach (US) Fund LP	Directional	Macro	4.71

Refer to Notes for Monthly Performance in Up/Down Equity Markets, Attribution by Strategy and Top Ten Holdings disclosures.

NOTES

See Risk Factors and Other Considerations for important disclosures. Investment in the Fund involves a high degree of risk and is suitable only for investors who can bear the risks associated with limited liquidity and therefore should be viewed as a long-term investment. For a complete description of terms and conditions, including sales load, fees and other expenses, see the Fund's prospectus.

Benchmark/Index Descriptions

Data provided under the “Financial Indices” sections reflect the most recent data available as of the date this report was produced and is sourced from Bloomberg.

HFRI FoF Diversified Index refers to the HFRI Fund of Funds: Diversified Index, sponsored by Hedge Fund Research, Inc. Funds classified as diversified invest in a variety of strategies among multiple managers.
Citi World Govt Bond refers to the Citigroup World Government Bond Index and consists of 14 world government bond markets with maturities of at least one year.
S&P 500 Index refers to the S&P 500 Total Return Index with dividends re-invested and is a is a free-float capitalization-weighted index of the prices of 500 large-cap common stocks actively traded in the United States.
Bloomberg Aggregate Index refers to the Bloomberg Capital U.S. Aggregate Index and is a broad-based fixed income benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage backed securities, asset backed securities and commercial mortgage backed securities.

Indices do not include any expenses, fees or sales charges, which would lower performance. Indexes are unmanaged and investors cannot directly invest in them. Index results are shown for comparative purposes and do not represent the performance of a specific investment.

Strategy and Regional Allocation

Percentages are calculated by dividing the total value of ARF’s investments in the strategies/regions by the NAV of ARF as of the end of the period. At any given time, ARF’s actual portfolio may vary from that reported, ARF may not invest in all the strategies/regions reported and ARF may invest in strategies other than those reported. Underlying Multi Strategy funds can pursue multiple strategies at once, but the chart does not show a Multi Strategy allocation because the adviser estimates these funds' respective strategy exposures, using, when available, data provided by these funds and, when not available, internally calculated estimates. Totals may not add to 100% due to rounding.

Hedge Fund Strategies

Relative Value Strategies - Focus on identifying and exploiting spread relationships between pricing components of financial assets or commodities, either with respect to single assets or commodities or groups of assets or commodities whose prices are deemed to move in relation to each other.

- Closed End Fund - Buys funds trading at a discount to underlying net asset value or sells short funds trading at a premium to underlying net asset value. Market risk is often hedged by selling short or buying related securities or indices.
- Convertible Arbitrage - Invest in long positions in convertible securities and often hedge those positions by selling short the underlying common stock.
- Fixed Income Arbitrage - Market neutral hedging strategy that seeks to profit by exploiting pricing inefficiencies between related fixed income securities while neutralizing exposure to interest rate risk.
- Merger/Risk Arbitrage - Involves investing in securities of companies that are the subject of some form of extraordinary corporate transaction, including acquisition or merger proposals, exchange offers, cash tender offers and leveraged buy-outs.
- Mortgage Arbitrage - Seeks to exploit pricing differentials between various issues of mortgage-related bonds.
- Statistical Arbitrage - Attempts to profit from temporary pricing discrepancies between related equity securities. This irregularity offers an opportunity to go long the cheaper security and to short the more expensive one.
- Volatility Arbitrage - Various strategies attempting to profit from increases or decreases in volatility, often utilizing options.
- Other Arbitrage - Arbitrage strategies not classified as Statistical Arbitrage, Mortgage Arbitrage, Convertible Arbitrage, Fixed Income Arbitrage and Volatility Arbitrage.
- Security Selection Strategies - Combine long positions and short sales with the aim of benefiting from the investment manager’s ability to select investments while offsetting some systematic market risks.
- Equity Long/Short High Hedge - Seeks to profit by exploiting pricing inefficiencies between related equity securities, neutralizing exposure to market risk by combining long and short positions.
- Equity Long/Short Opportunistic - Consists of a core holding of long equities hedged at all times with short sales of stocks and/or stock index

options. Some managers maintain a substantial portion of assets within a hedged structure and commonly employ leverage.

- Event Driven Equity - Investments in restructuring companies that are undergoing significant corporate events such as spin-offs, recapitalizations, litigation events, strategic realignment, and other major changes. It also includes “value” investments in securities that are believed to underpriced relative to their intrinsic or fundamental value or which are expected to appreciate in value if circumstances change or an anticipated event occurs.
- Specialist Credit Strategies - Seek to lend to credit-sensitive issuers (generally below investment grade, typically referred to as “junk” issuers). Their potential investment edge is derived from the investment manager’s expected ability to perform a high level of due diligence and to take advantage of what the investment manager discerns to be relatively inexpensive securities.
- Event Driven Credit - Invest in debt securities expected to appreciate due to a future event related to the issuer.
- Relative Value Credit - Attempts to take advantage of relative pricing discrepancies between debt instruments. Manager’s may use mathematical, fundamental, or technical analysis to determine misvaluations.
- Distressed - Invest in, and may sell short, the securities of companies where the security’s price has been, or is expected to be, affected by a distressed situation such as a bankruptcy or corporate restructuring.
- Private Placements - Investments in various private investments, either debt or equity, often without hedging.
- Directional Strategies - Are based on speculating on the direction of market prices of currencies, equities, bonds, and commodities in the futures and cash markets.
- Macro - Investing by making leveraged bets on anticipated price movements of stock markets, interest rates, foreign exchange and physical commodities
- CTA/Managed Futures - Invest in a variety of futures contracts, including currencies, interest rates, stocks, stock market indexes, derivatives, and commodities. These funds build quantitative models to price futures and then take long and short positions in the futures.
- Other Directional - Directional (generally not hedged) investments not classified as Equity Long/Short Opportunistic, Macro or CTA/Managed Futures.

Cumulative Performance Since Inception

Cumulative performance since the Fund's inception date, based on the net of fees return experience of the Fund and presented indices. Cumulative performance links monthly performance through compounded multiplication. For further information regarding calculation of net return, see the first page of this Fund Profile.

Distribution of Monthly Returns

The percentage of the number of months whereby the monthly net of fees returns fall within increments of 1% are presented. 0% to 1% refers to returns at least 0% up to but not including 1%. Other ranges are treated similarly.

Monthly Performance in Up/Down Equity Markets

Up equity markets reflect the net of fees performance of the Fund during the months in which the S&P 500 Index performance was positive. Down equity markets reflect the net of fees performance of the Fund during the months in which the S&P 500 Index performance was negative.

Attribution by Strategy

Attribution by strategy is calculated by dividing the total profit and loss of the underlying funds in a strategy by the amount invested at the beginning of the month by ARF. If leverage is used by ARF, the quotient is multiplied by the leverage. The calculation includes all fees of underlying funds but does not include the impact of ARF or Fund level fees and expenses or the impact of cash on ARF's portfolio.

Top Ten Holdings

The percentage weight is determined by dividing the total value of ARF's investment in the hedge fund holding by ARF's net asset value.

All holdings of ARF bear expenses, referred to as acquired fund fees and expenses in ARF's prospectus, including operating expenses, trading expenses and performance based incentive fees. Operating expenses consist of management fees, administration fees, professional fees (i.e., audit and legal fees), and other operating expenses. For 2025, operating expenses aggregated 2.45%. Trading expenses primarily consist of interest and dividend expenses and result from leveraging or hedging activities employed to enhance returns of the underlying hedge fund holdings. For 2025, trading expenses aggregated 23.57%. Incentive fees are performance-based compensation payable to the investment manager based on the profits of underlying hedge fund holdings. For 2025, incentive fees aggregated 4.95%. Total acquired fund fees and expenses for 2025 aggregated 30.97%. For 2025, the Fund expense ratio was 4.31% and the total annual Fund expense was 35.28%. The information used to determine acquired fund fees and expenses is based on the most recent shareholder reports or other information received from the respective underlying hedge fund holdings. Fees and expenses of underlying hedge fund holdings are based on historic fees and expenses. Future fees and expenses may be substantially higher or lower because certain fees are based on investment performance, which may fluctuate over time and changes in operating expense arrangements or trading activities.

This information is for informational purposes only and is not an offer, or a solicitation of an offer, to buy or sell any security or participate in any trading strategy. No investment should be made without proper consideration of the risks and advice from appropriate tax, accounting, legal or other advisers.

Risk Factors and Other Considerations

Please consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund. To obtain a prospectus, contact your financial advisor. Please read the prospectus carefully

Morgan Stanley does not render advice on tax and tax accounting matters to clients. This material was not intended or written to be used, and it cannot be used with any taxpayer, for the purpose of avoiding penalties which may be imposed on the taxpayer under U.S. federal tax laws. Federal and state tax laws are complex and constantly changing. Clients should always consult with a legal or tax advisor for information concerning their individual situations.

Investment and Trading Risks. The Fund's performance depends upon the performance of the underlying hedge funds, in which ARF invests. Morgan Stanley AIP GP LP, ARF's adviser (the "Adviser"), effectively selects hedge funds and allocates and reallocates ARF's assets among them. Each hedge fund's use of leverage, short sales and derivative transactions, in certain circumstances, can result in significant losses. In addition, the Adviser has broad discretion with respect to the management of ARF and ARF may be concentrated in any one strategy which may negatively affect returns. The Adviser, however, typically will endeavor to limit investments in any one hedge fund to no more than 15% of ARF's gross assets (measured at the time of purchase). The hedge funds selected by ARF may invest and trade in a wide range of instruments and markets and may pursue various investment strategies. Overall, the risks to which the Fund may be exposed include, among other things, risk arising from: general economic and market conditions; the volatility of the equity, fixed income, commodity and currency markets; borrowing and short sales; leverage; illiquidity of derivative instruments and the potential loss from counterparty defaults. All securities investing and trading activities risk the loss of capital. Although the Adviser will attempt to moderate these risks, no assurance can be given that ARF's investment activities will be successful or that shareholders will not suffer losses. To the extent that the portfolio of a hedge fund is concentrated in securities of a single issuer or issuers in a single industry, the risk of any investment decision made by the investment manager of such hedge fund (the "Investment Manager") is increased.

Leverage. The hedge funds may directly or indirectly borrow money from brokerage firms and banks or may "leverage" their investment return or seek to hedge against a decline with a variety of instruments, such as options, swaps, forwards and other derivative instruments. The leverage embedded in such borrowings and instruments will increase the risk of investing in the Fund and will tend to accelerate losses in a downturn. ARF may also use leverage subject to legal and certain other limitations, but leverage is primarily a risk associated with ARF's investment in the hedge funds.

Special Investment Instruments and Techniques. Hedge funds may utilize a variety of special investment instruments and techniques described below to hedge the portfolios of the hedge funds against various risks, such as changes in interest rates or other factors that affect security values, or for non-hedging purposes in seeking to achieve a hedge fund's investment objective. The Adviser, on behalf of ARF, may also use these special investment instruments and techniques for either hedging or non-hedging purposes. These strategies may be executed through derivative transactions. Instruments used and the particular manner in which they may be used may change over time as new instruments and techniques are developed or regulatory changes occur. Certain of these special investment instruments and techniques are speculative and involve a high degree of risk, particularly in the context of non-hedging transactions.

Adviser Payments. The Adviser may pay additional compensation, out of its own funds and not as an additional charge to the Fund, to selected affiliated or unaffiliated brokers, dealers or other financial intermediaries (including affiliated selling agents) ("Intermediaries") in connection with the sale, distribution and retention of shares, and/or shareholder servicing. For example, the Adviser may pay compensation to Intermediaries for the purpose of promoting the sale of shares of the Fund, maintaining balances of Fund shares, and/or for sub-accounting, administrative or shareholder processing services. Such payments are made quarterly by the Adviser. The payments made by the Adviser may be based on the net asset value of the Fund as determined by the Adviser. The amount of these payments is determined from time to time by the Adviser and may be substantial. With respect to Intermediaries, these payments are expected to include the following amounts paid by the Adviser from its own funds: an amount not to exceed 0.50% of the net asset value of the Fund attributable to each client of Morgan Stanley who invests in the Fund. A portion of this payment is expected to be paid through to the professional responsible for the client relationship and/or selling the Fund. This payment may be made as long as a client of an Intermediary is invested in the Fund. The prospect of receiving, or the receipt of, additional ongoing compensation as described above by Intermediaries, out of the Adviser's own funds and not as an additional charge to the Fund, may provide such Intermediaries and/or their salespersons with an incentive to favor sales of shares of the Fund, and funds whose affiliates make similar compensation available, over sales of shares of funds (or other fund investments) with respect to which the Intermediary receives either no additional compensation or lower levels of additional compensation. The prospect of receiving, or the receipt of, such additional ongoing compensation may provide Intermediaries and/or their salespersons with an incentive to favor recommending that shareholders maintain their assets in the Fund rather than re-allocate assets to another investment. These payment arrangements, however, will not change the price that an investor pays for shares of the Fund or the amount that the Fund receives to invest on behalf of an investor. Shareholders may wish to take such payment arrangements into account when considering and evaluating any recommendations relating to shares of the Fund.

Conflicts of Interest. In the ordinary course of its business, Morgan Stanley engages in a broad spectrum of activities including, among others, financial advisory services, investment banking, asset management activities, sponsoring and managing private hedge funds, including affiliated funds which utilize an investment program similar to that of ARF, prime brokerage activities, and broker-dealer transactions. In addition, Morgan Stanley, as a prime broker to certain hedge funds, may be privy to nonpublic information about the performance of such hedge funds which it generally would not disclose to the Adviser without express permission to do so. Accordingly, shareholders and the Adviser may not know important information that could result in the deterioration in the Fund's or hedge funds' performance, notwithstanding that certain affiliates or entities within Morgan Stanley will have such information. In engaging in these activities, the interest of Morgan Stanley or the interests of its clients may conflict with the interests of shareholders. The Fund can give no assurance that any conflicts of interest will be resolved in favor of the shareholders. By acquiring shares in the Fund, each shareholder will be deemed to have acknowledged the existence of such actual and potential conflicts of interest and to have consented thereto and to have waived any claim with respect to any such conflicts of interest.

Limitations on Transfer; Shares not Listed; No Market for Shares. No shareholder is permitted to transfer his, her or its shares without the consent of the Fund. The transferability of shares is subject to certain restrictions contained in the Fund's organizational documents and is affected by restrictions imposed under applicable securities laws. There is no secondary trading market for the shares, and none is expected to develop. The shares are, therefore, not readily marketable. In addition, Fund shares are not traded on any securities exchange or other market and are subject to substantial restrictions on transfer. Although the Adviser and the Fund expect to recommend to the Board of Trustees that the Fund offer to repurchase shares quarterly, no assurances can be given that the Fund will do so. Consequently, shares should only be acquired by investors able to commit their funds for an indefinite period of time.

Some risks specifically associated with investing in a fund of hedge funds are as follows:

Reliance on Third-Party Management. The goal of investing in a portfolio of hedge funds managed by the Adviser is to seek capital appreciation. Hedge funds selected for ARF's portfolio are managed by third-party managers unaffiliated with the Adviser over which the 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.

No Assurance of Returns. The investment program of a portfolio of hedge funds is speculative and entails substantial risks. No assurance can be given that its investment objective would be achieved. Its performance depends upon the performance of the hedge funds included in the portfolio and upon the ability of the Adviser effectively to select hedge funds and allocate and reallocate the ARF portfolio's assets among them. Each hedge fund's use of leverage, short sales, and derivative transactions, in certain circumstances, can result in significant losses, volatility, or both.

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 Adviser will periodically receive information from each hedge fund in which the ARF portfolio is invested regarding such hedge fund's investment performance and investment strategy, the 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 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. ARF and the Fund are registered with the SEC under the ICA and are classified as non-diversified management investment companies under the ICA. Consequently, percentage limitations imposed by the ICA on the portion of ARF assets which may be invested in the securities of any single issuer will not apply. As a result, ARF'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 ARF's portfolio of hedge funds managed by the Adviser, an investor bears its proportionate share of the asset-based fees as well as other expenses of the ARF 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 ARF's portfolio. An investor which meets the eligibility conditions imposed by the respective hedge funds included in ARF's portfolio, including minimum initial investment requirements which may be substantially higher than those imposed by the Fund, could avoid the extra layer of fees and expenses by investing directly in those hedge funds.

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 ARF's portfolio make investment decisions independently of each other. Consequently, at any particular time, one hedge fund in the ARF portfolio may be purchasing interests in an issuer which at the same time are being sold by another hedge fund in the ARF portfolio. Investment by hedge funds in this manner could cause the overall ARF 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 ARF 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 ARF portfolio's objectives generally, some assets held in the ARF 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 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 Adviser's management of certain funds registered with the SEC under the ICA, the Adviser may enter into contractual relationships under which other funds managed by the Adviser (including the Fund), as well as the registered funds managed by the 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 ARF, the Adviser would seek to dispose of the securities so distributed in a manner which is in the best interests of ARF.

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 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 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.

HFRI Indices. 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 (which means that 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 (which means that 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 (which means that 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 Hedge Fund Research, Inc. 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.

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 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 Adviser to recommend that the Fund's board of 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.

Delayed Tax Information. For the Fund to complete its tax reporting requirements and provide an audited annual report to Fund shareholders, it must receive timely information from the hedge funds. Investment Managers typically experience delays in providing the necessary tax information, **thereby causing a delay in the Adviser's preparation of tax information for investors. This delay likely will require Fund shareholders to seek extensions of the time to file their tax returns.**

The Fund is offering shares solely pursuant to its prospectus, and any information regarding the Fund or shares in the Fund that is not contained in the relevant prospectus shall not constitute an offering of shares in the Fund. Consequently, this material has been prepared solely for informational purposes and is not an offer, or a solicitation of an offer, to buy or sell shares of the Funds or any other security or instrument or to participate in any trading strategy. No person or entity has been authorized in connection with this offering to give any information or make any representations other than as contained in the prospectus or in this marketing material. This does not constitute an offer to, or solicitation of, such person or entity.

Alternative Investment Partners Absolute Return Fund STS is a Delaware statutory trust that issues shares. Morgan Stanley Distribution, Inc. is a principal underwriter of Alternative Investment Partners Absolute Return Fund STS. Morgan Stanley Investment Management is a wholly owned subsidiary of a global securities firm which is engaged in a wide range of financial services including, for example, securities trading and brokerage activities, investment banking, research and analysis, financing and financial advisory services. No investment should be made without proper consideration of the risks and advice from your tax, accounting, legal or other advisors as you deem appropriate.

Please consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund. To obtain a prospectus, contact your financial advisor. Please read the prospectus carefully before investing.

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