We believe the next decade is unlikely to mirror the last. We witnessed the second-longest bull run in history with the S&P 500 index rising more than 14% annually since March 2009 followed by one of the sharpest recessions on record due to the COVID-19 pandemic (as illustrated in Display 1). In our view, predicting the exact nature and timing of the current economic recovery post-COVID-19 is impossible but building a portfolio that seeks to withstand it is essential. We believe that this preparation requires applying a multidimensional investment methodology and discarding conventional wisdom in order to construct a portfolio to perform well in both economic downturns and subsequent periods of outperformance.

DISPLAY 1
S&P 500 Index Return
March 9, 2009 – June 30, 2020

1 Source: Capital IQ - S&P500 Index, as of June 30, 2020. Past performance is not indicative of future results.

For illustrative purposes only. The statements above reflect the opinions and views of Morgan Stanley AIP Private Markets 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. Past performance is not indicative of future results.
While historically defensive sectors—such as utilities, healthcare, and consumer staples—have long been considered “safe” areas to invest and cyclical sectors have been perceived to have higher risk, we believe painting broad brush strokes about sectors and cyclicity is ineffective as a guideline for constructing a potentially resilient portfolio. Rather, we believe that deep evaluation of company fundamentals alongside a clear understanding of industry forces is critical to the success of creating a portfolio that seeks to withstand the next market downturn.

Since its inception in 2000, AIP Private Markets has collectively committed $19.0 billion to over 850 private equity transactions. Through this experience, we formed an investment philosophy that we believe helps enable us to endure challenging environments and to thrive in robust market conditions. Therefore, with a forward-looking lens, we developed a three-pronged framework for seeking to select potentially resilient companies with strong value creation prospects that entails the following:

1. Identifying efficiency producing businesses with exposure to stable end markets

One of the challenges to investing resiliently is to identify businesses that will grow in both benign and challenging market conditions. One such niche that we believe has this characteristic includes companies that provide a solution or service that lowers the overall costs for customers, and therefore improves margins. Such offerings can be the result of minor or major technological advances or services that better fit the current needs of customers; often solving problems that did not exist 10-15 years ago. Businesses that focus on producing such efficiency can consistently do well through market cycles as they improve the profitability of their customers and are subsequently deemed essential, agnostic of where in the market cycle they are implemented.

For example, we invested in the largest private label oral care manufacturer in the United States. Since the global financial crisis, retailers have experienced declining footfall and in some cases declining revenues. In response, many retailers materially increased their promotion of private label brands which are typically cheaper for end consumers and could be 3x as profitable as branded goods. As a consequence, consumption of private label brands has risen. The private label oral care manufacturer that we invested in is a significant player in this space and, in our opinion, is the chief beneficiary of this trend. As a result, this business has been able to grow even in a period where revenues for retailers are broadly under pressure.

In a similar contrarian vein, we acquired a medical scribe company that serves medical providers including both hospitals and outpatient physicians. Our internal view is that healthcare providers will face both revenue and cost pressures going forward due to the U.S. government’s desire to control overall healthcare spending and a continued shortage of both doctors and nurses. However, this company provides material efficiencies to these providers by solving issues related to the recently implemented electronic medical record systems (“EMR”). This business provides qualified medical scribes that complete the EMR notes. This company has grown revenues organically at a rate of nearly 30% and we believe that its growth can continue even in more challenging environments for medical providers due to the cost savings the company provides.

2. Partnering with highly aligned and specialized investment partners

In our view, assessing resiliency involves dissecting the experience base of owner/operators and the payouts they receive from their compensation plans in both up and down markets. We seek to align ourselves with highly specialized private equity sponsors and management teams with proven track records of executing value creation plans and navigating operational challenges in the specific industry they invest in. We seek to achieve a strong alignment of interests with our partners by investing in businesses where the current sponsor/manager of the asset believes in its go-forward value creation potential and their compensation structure encourages both capital preservation and generation of strong returns for investors.

By way of illustration, we invested in one of the leading healthcare providers of respiratory products. The company operates in a highly fragmented subsector ripe for industry consolidation. The value creation thesis going forward was predicated upon pursuing a consolidation strategy. Such a buy-and-build strategy, in our view, requires an experienced team that can identify and execute add-ons successfully. In the case of this company, the management is led by a CEO with 27 years of experience in this particular healthcare niche who had already completed over 60 accretive tuck-ins since

---

2 Source: AIP Private Markets Data, as of December 2019.
3 Source: AIP Private Markets Data, as of December 2018.
4 Based on information provided by the underlying manager. There is no guarantee that the investment mentioned will perform well in the future. The above example is provided solely to demonstrate the views, opinions and type of analysis used by AIP in implementing its investment strategy.
5 Annual compounded revenue growth rate since company's inception in 2000 to December 2018.
6 Based on information provided by the underlying manager. There is no guarantee that the investment mentioned will perform well in the future. The above example is provided solely to demonstrate the views, opinions and type of analysis used by AIP in implementing its investment strategy.

For illustrative purposes only. The statements above reflect the opinions and views of Morgan Stanley AIP Private Markets 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. Past performance is not indicative of future results.
2006. The private equity sponsor is purely focused on growth-oriented companies in the healthcare sector and brought deep and complementary experience in the segment to this investment. The sponsor, who was the current owner of the asset, believed in the trajectory of the asset and they agreed to roll all proceeds generated from the profit share during their prior ownership alongside us in this transaction and to make a meaningful additional commitment to the investment from their personal balance sheets. Through this alignment mechanism, we sought to ensure our partners were incentivized to both preserve capital and produce positive investment returns. As another example, we purchased a platform of franchise boutique fitness brands in 2018. The CEO has a demonstrated track record of scaling fitness businesses, even through the global financial crisis. Confident in the value creation potential going forward, he rolled over his entire stake in the business to this transaction. Additionally, the option pool was increased for the management team and structured with performance hurdles. The private equity sponsor in this transaction is a highly regarded growth investor that has focused on the boutique fitness space over the last eleven years. This sponsor also made a considerable investment alongside us. This degree of alignment and experience is representative of what we seek in our partners to effectively manage businesses across economic cycles.

As another example, we purchased a platform of franchise boutique fitness brands in 2018. The CEO has a demonstrated track record of scaling fitness businesses, even through the global financial crisis. Confident in the value creation potential going forward, he rolled over his entire stake in the business to this transaction. Additionally, the option pool was increased for the management team and structured with performance hurdles. The private equity sponsor in this transaction is a highly regarded growth investor that has focused on the boutique fitness space over the last eleven years. This sponsor also made a considerable investment alongside us. This degree of alignment and experience is representative of what we seek in our partners to effectively manage businesses across economic cycles.

3. Seeking value on the buy with businesses exhibiting high cash flow generation and conservative leverage

Investors architecting for resilience, we believe, are almost certainly concerned with the peak absolute pricing levels paid for assets in the current market, but many may forget that further fragility is added when we consider the impact of leverage. With average valuations hovering around 11.5x in the U.S. private equity market and 14x in the public equity market (as illustrated in Display 2), the environment continues to be challenging for investors seeking high quality companies at attractive prices. Nevertheless, we remain disciplined in seeking to purchase assets at discounts to fair market value and with strong relative value. The average entry multiple across the investments we closed in recent years is 11.2x EBITDA. We believe that the key to accessing value in frothy markets is to take a proactive approach to deal sourcing. Through our relationship-driven sourcing efforts, we seek to generate proprietary deal flow that allows us to invest in high quality companies at reasonable purchase prices.

However, in our view, an attractive purchase price provides only limited safeguards in a downturn if the company is over levered. Although current leverage multiples have surpassed pre-crisis levels, we maintain our focus on conservative capital structures. The average debt/EBITDA ratio for our investments made in recent years is 4.0x EBITDA versus market leverage of 5.9x EBITDA. In addition to leverage, we also assess a company’s cash

---

8 Based on information provided by the underlying manager. There is no guarantee that the investment mentioned will perform well in the future. The above example is provided solely to demonstrate the views, opinions and type of analysis used by AIP in implementing its investment strategy.
9 Based on information provided by the underlying manager. There is no guarantee that the investment mentioned will perform well in the future. The above example is provided solely to demonstrate the views, opinions and type of analysis used by AIP in implementing its investment strategy.
10 Based on entry statistics of investments in Ashbridge Transformational Secondaries Fund I, as of December 2019. Note, this Ashbridge Fund is now closed to new investors.
11 Based on entry statistics of investments in Ashbridge Transformational Secondaries Fund I, as of December 2019. Note, this Ashbridge Fund is now closed to new investors.

For illustrative purposes only. The statements above reflect the opinions and views of Morgan Stanley AIP Private Markets 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. Past performance is not indicative of future results.
flow characteristics to seek to determine how stable, recurring, or sensitive they are to cyclical fluctuations. We seek to acquire highly cash flow generative businesses that continue to provide value to equity investors through downturns.

**Conclusion**

There are many strategies to look at when seeking to build a resilient portfolio. Our experience has led us to develop a framework for selecting companies and constructing a portfolio that seeks to withstand changes in the economic cycle.

By accepting this document, you agree that such document (including any data, analysis, conclusions or other information contained herein provided by the AIP Private Markets Team in connection herewith) may not be reproduced or otherwise shared or distributed to any other persons, in whole or in part, without the prior consent of an AIP Private Markets Team representative.

Alternative investments typically have higher fees and expenses than other investment vehicles, and such fees and expenses will lower returns achieved by investors. Funds of funds often have a higher fee structure than single manager funds as a result of the additional layer of fees. Alternative investment funds are typically highly illiquid—there is no secondary market for private funds, and there may be restrictions on redemptions or the assignment or other transfer of investments in private funds. Alternative investments often utilize leverage and other speculative practices that may increase volatility and risk of loss. Financial intermediaries are required to satisfy themselves that the information in this document is suitable for any person to whom they provide this document in view of that person’s circumstances and purpose. The AP Private Markets Team shall not be liable for, and accepts no liability for, the use or misuse of this document by any such financial intermediary. If such a person considers an investment she/he should always ensure that she/he has satisfied herself/himself that she/he has been properly advised by that financial intermediary about the suitability of an investment.

For illustrative purposes only. The statements above reflect the opinions and views of Morgan Stanley AIP Private Markets 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. Past performance is not indicative of future results.
may be subject to a variety of legal risks, including environmental issues, land expropriation and other property-related claims, industrial action and legal action from special interest groups.

Epidemics and Other Health Risks Many countries have experienced outbreaks of infectious illnesses in recent decades, including swine flu, avian influenza, SARS and the 2019-nCoV (the "Coronavirus"). In December 2019, an initial outbreak of the Coronavirus was reported in Hubei, China. Since then, a large and growing number of cases have been confirmed around the world. The Coronavirus outbreak has resulted in numerous deaths and the imposition of both local and more widespread "work from home" and other quarantine measures, border closures and other travel restrictions, causing social unrest and commercial disruption on a global scale and significant volatility in financial markets. In March 2020, the World Health Organization declared the Coronavirus outbreak a pandemic. The ongoing spread of the Coronavirus has had, and will continue to have, a material adverse impact on local economies in the affected jurisdictions and also on the global economy, as cross border commercial activity and market sentiment are increasingly impacted by the outbreak and government and other measures seeking to contain its spread. The global impact of the outbreak has been rapidly evolving, and many countries have reacted by instituting quarantines and restrictions on travel. These actions are creating disruption in supply chains, and adversely impacting a number of industries, including but not limited to retail, transportation, hospitality, and entertainment. In addition to these developments having adverse consequences for certain portfolio companies and other issuers, our operations have been, and could continue to be, adversely impacted, including through quarantine measures and travel restrictions imposed on our personnel or service providers based or temporarily located in affected countries, or any related health issues of such personnel or service providers. Similar consequences could arise with respect to other comparable infectious diseases.

This is prepared for sophisticated investors who are capable of understanding the risks associated with the investments described herein and may not be appropriate for the recipient. 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.

Morgan Stanley does not render tax advice on 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 situation.

DISTRIBUTION
This communication is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

For Professional investors Only and Not to Be Used with the General Public outside of the United States.


Germany: Morgan Stanley Investment Management Limited Niederlassung Deutschland Jungfernstiege 13-15 60311 Frankfurt Deutschland (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). Ireland: Morgan Stanley Investment Management (Ireland) Limited. Registered Office: The Observatory, 717 Sir John Rogerson’s Quay, Dublin 2, Ireland. Registered in Ireland under company number 616662. Authorised and regulated by the Central Bank of Ireland. Italy: Morgan Stanley Investment Management Limited, Milan Branch (Sede Secondaria di Milano) is a branch of Morgan Stanley Investment Management Limited, a company registered in the UK, authorised and regulated by the Financial Conduct Authority (FCA), and whose registered office is at 25 Cabot Square, Canary Wharf, London, E14 4QA. Morgan Stanley Investment Management Limited Milan Branch (Sede Secondaria di Milano) with seat in Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy, is registered in Italy with company number and VAT number 08829360968. The Netherlands: Morgan Stanley Investment Management, Rembrandt Tower, 17th Floor Amstelplein 11096HA, Netherlands. Telephone: 31 2-0462-1300. Morgan Stanley Investment Management is a branch office of Morgan Stanley Investment Management Limited. Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom. Switzerland: Morgan Stanley & Co. International plc, London, Zurich Branch Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered with the Register of Commerce Zurich CHE-115.415.770. Registered Office: Beethovenstrasse 33, 8002 Zürich, Switzerland. Telephone: +41 (0) 44 588 1000. Facsimile: +41(0) 44 588 1076. Hong Kong: This document has been issued by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this document have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. Singapore: This document should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"); (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. In particular, for investment funds that are not authorized or recognized by the MAS, units in such funds are not allowed to be offered to the retail public; any written material issued to persons as aforementioned in connection with an offer is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply, and investors should consider carefully whether the investment is suitable for them.

Australia: This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 120040337, AFSL No. 314182, which accepts responsibility for its contents. This publication, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

This communication is intended to describe an investment strategy. It is not an offer, solicitation or sale in respect of any particular fund or other investment vehicle. Access to this investment strategy may be restricted for certain investors depending on factors such as their location and sophistication. Morgan Stanley is not responsible for the information contained on any third party website or your use or inability to use such site, nor do we guarantee its accuracy or completeness. The terms, conditions, and privacy policy on any third party website may be different from those applicable to your use of any Morgan Stanley website. The opinions expressed by the author of an article written by a third party are solely his/her own and do not necessarily reflect those of Morgan Stanley. The information and data provided by any third party website of publication is as of the date when it was written and is subject to change without notice.
For illustrative purposes only. The statements above reflect the opinions and views of Morgan Stanley AIP Private Markets 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. Past performance is not indicative of future results.

Explore our site at www.morganstanley.com/im