Morgan Stanley

INVESTMENT MANAGEMENT

Global Macro—Why Now?

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Global Macro is an investment style that is highly opportunistic and has the potential to generate strong risk-adjusted returns in challenging markets. Against a backdrop of geopolitical uncertainty and potentially increased volatility,[1] we felt it would be timely to share our insights on the space and explain why we believe now could be an opportune time to make an allocation to Global Macro.

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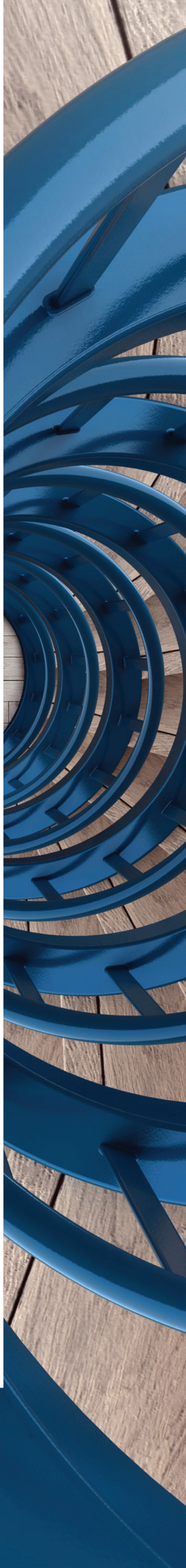
Both equity and fixed income markets have exhibited strong performance in recent years, leading to fully valued stock markets, historically low yields and tight credit spreads. However, substantial U.S. fiscal stimulus through a $1.5 trillion tax cut and a $300 billion increase in government spending,[2] amid robust economic growth and inflation readings, have made it difficult for investors to adopt a more cautious, late-cycle posture in their portfolios. Importantly, increasing market volatility levels may result from any of a litany of potential catalysts, including escalating protectionist policies, U.S. midterm elections, central bank policy missteps, Italian debt sustainability, tensions in the Middle East, and political unrest in key emerging markets. We believe that these dynamics have

[1] Please see Glossary for definitions.

[2] Source: AIP Hedge Fund Team.



set the stage for a challenging investment landscape, one in which Global Macro tends to outperform.

In this paper we provide an overview of Global Macro hedge fund strategies, evaluate their performance from a historical perspective, and discuss options for implementation. We will also explain why we believe an allocation to an actively managed, diversified portfolio of Global Macro managers is a valuable component of a well-diversified portfolio—particularly today.

Section 1: Overview

Though the definition is fairly open-ended, Global Macro strategies generally involve directional positioning across a broad range of markets and asset classes based on technical and/or fundamental[1] analysis. With the ability to take long or short[3] positions in any global market using any financial instrument, Global Macro strategies can be very opportunistic.

Global Macro managers can be classified in a variety of ways, including by style, type of analytical input, and investment time horizon.

Style

- **DISCRETIONARY** – Though discretionary managers may employ quantitative models, ultimate "discretion" on trade expression and execution lies with a human trader. Experience and skill inform qualitative inputs that factor into decisions about trading instruments, sizing and timing.
- **SYSTEMATIC[4]** – Systematic managers rely on quantitative models to determine entry, exit and sizing decisions. A distinguishing characteristic of systematic strategies is their ability to trade across a great number of markets and construct well-diversified portfolios.

Type of Input

- **FUNDAMENTAL[5]** – Fundamental managers evaluate opportunities based on criteria such as valuation metrics, economic forecasts, interest rate and currency outlooks, and fiscal and monetary policy. The information employed may be macro-economic or the aggregation of micro-level information. These managers tend to be close followers of academia, particularly econometrics.
- **TECHNICAL[6]** – Technical managers employ predictive signals that are generated from market-related information (e.g., price, volume, order book), and often involve the use of pattern recognition and other types of advanced statistical forecasting tools.

Time Horizon

- **SHORT TERM** – Short-term managers express trades with holding periods typically less than one week, often capitalizing on intra-day mispricings. These strategies are trading and resource intensive, and they can only be implemented in highly liquid markets.
- **LONG TERM** – Long-term managers express trades with multi-week to multi-month time horizons. Transaction costs are less important in long-term strategies than in short-term ones.

Managers can be further differentiated by the degree of directionality and generalist versus specialist orientation. And of course, they may employ a combination of strategies and won't necessarily fall neatly into any one classification bucket.

Sources of Return

Global Macro managers seek to generate the majority of their alpha[7] by timing their exposure to risk premia[3] ("betas")[3] across a broad range of liquid markets. To do so, they gather, process and analyze data, use proprietary trading models, customize technology platforms and rely on automatic execution systems. Some managers also seek to gain an investment edge by applying bottom-up micro-level analyses in specific markets and/or regions.

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[3] Shorting is selling a security not owned by the seller to take advantage of an anticipated price decline.

[4] Please see Glossary for definitions.

[5] Please see Glossary for definitions.

[6] Please see Glossary for definitions.

[7] Please see Glossary for definitions.

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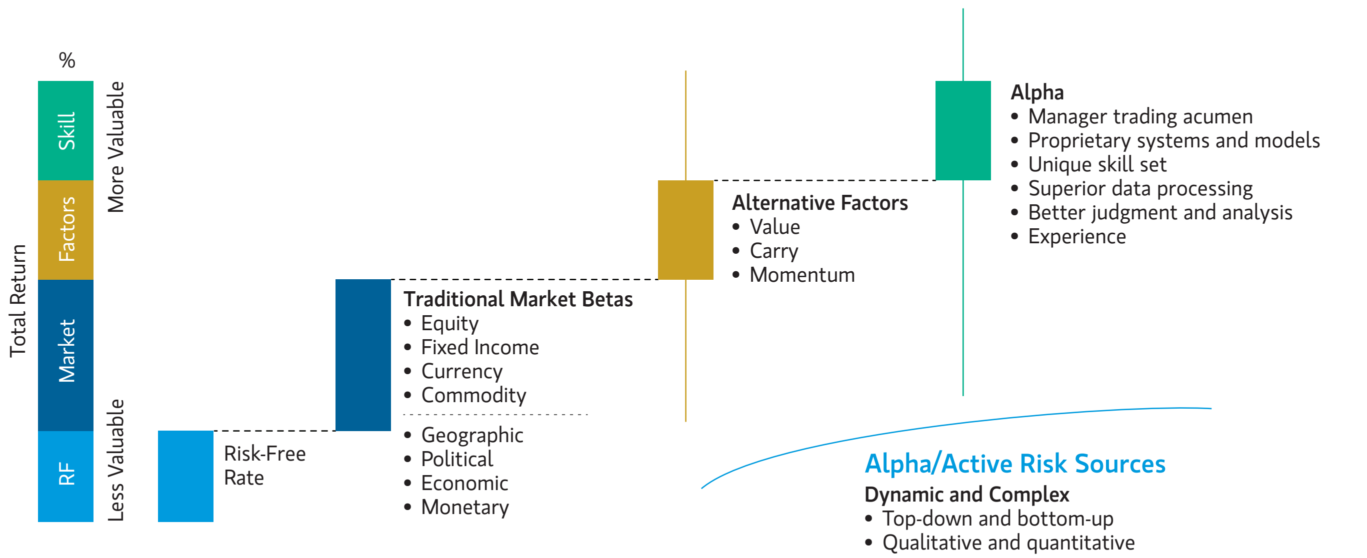
DISPLAY 1

Return Decomposition



For illustrative purposes only.

Global Macro managers seek to exploit inefficiencies, such as those listed below, many of which feature prominently today:

- Investor behavioral biases
- Reduced consensus opinion on market directionality
- Monetary policy errors causing disequilibria in the financial markets
- Non-economic investment activities (central bank currency interventions, sovereign debt rating downgrades, political events)
- Divergent global business cycles
- High dispersion[8] of central banking policy
- Differences in local tax and regulatory structures

The beta component of a Global Macro manager's return typically comes from systematic exposure to a variety of traditional forms of risk premia, including equity risk premia, term premia and credit risk premia. An additional component of returns stems from exposure to "alternative risk premia". These often are well known and commonly exploited phenomena that can be captured through simple trading strategies.

Display 1 illustrates how careful statistical analysis can help to "decompose" a manager's returns and shine a light on the drivers of inter-manager correlations.[9]

Section 2: A Historical Perspective

History

In the 1990s, Global Macro was dominated by a small number of large managers with highly concentrated, leveraged directional bets, which inevitably led to high volatility of returns. However, beginning in 2000, with the investor community's increased demand for institutionalized hedge fund managers, assets flowed to those Global Macro managers that adopted a more disciplined framework and more robust risk management. In our opinion, this has translated to more stable, albeit lower, returns for the strategy.

[8] Please see Glossary for definitions.

[9] Please see Glossary for definitions.

At the same time, markets have become much more competitive. To combat the inherent return degradation, Global Macro managers have increasingly adopted a specialist approach, focusing their research efforts on such areas as asset class, predictive signal type, and time horizon. This has resulted in an explosion in the number and variety of Global Macro strategies, increasing the complexity of the manager selection process.

Strong Performance During Market Dislocations

From January 1, 1990 to March 31, 2018, Global Macro, as proxied by the HFRI Macro (Total) Index, generated a 10.15% annualized return with an associated annualized volatility of 7.15%, representing 50 basis points of excess annualized returns over the S&P 500 while incurring 711 basis points lower annualized volatility. Over that period, Global Macro experienced positive returns in 22 out of 27 full calendar years.[10]

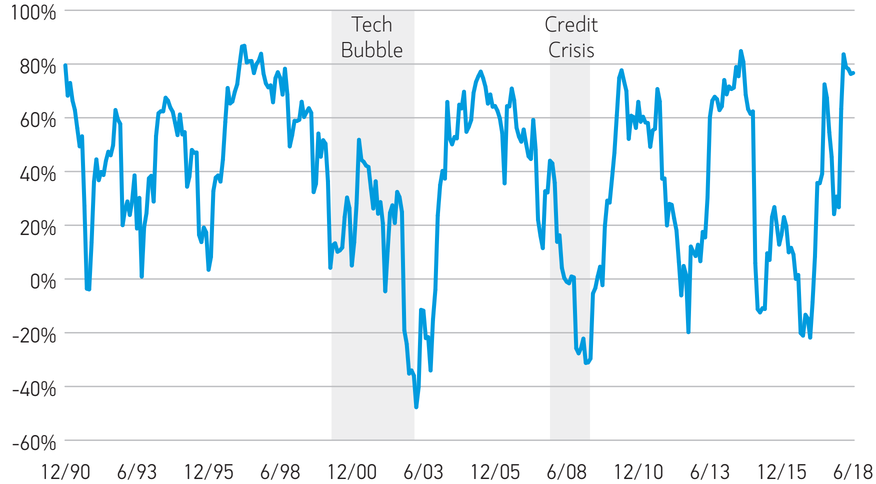
Periodic spikes in market volatility and major inflection points in central bank policy measures in recent months have highlighted that correlations are not stable. During severe market dislocations, diversification benefits can quickly evaporate as correlations spike. Historically, the effect has tended to be the opposite for Global Macro. For example, as illustrated in *Display 2*, correlations between Global Macro and equities actually decreased during the technology bubble and the credit crisis.

As shown in *Display 3*, Global Macro performance (as proxied by HFRI Macro (Total) Index) has tended to be strong during market crises. Such market conditions often give rise to attractive trading opportunities on which Global Macro managers can capitalize.

DISPLAY 2

HFRI Macro and S&P 500 12-Month Rolling Correlation

12/31/1990 through 06/30/2018

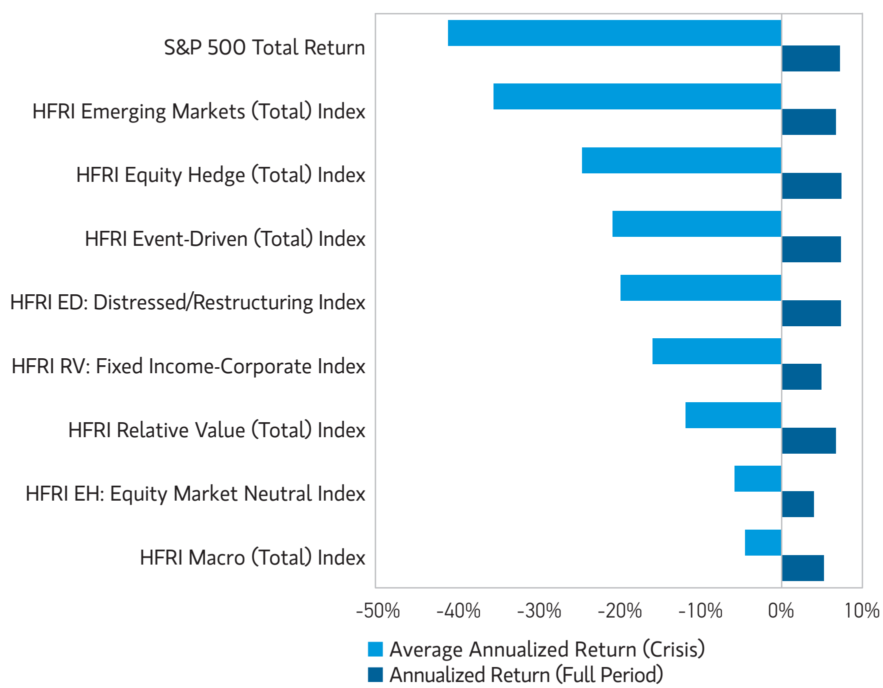


Source: Hedge Fund Research Inc. and Bloomberg

DISPLAY 3

Global Macro Performance During Crisis Periods

01/1998 through 06/2018



Source: Hedge Fund Research, Inc. for HFRI indices; Bloomberg for all other indices

[10] Source: Hedge Fund Research, Inc.

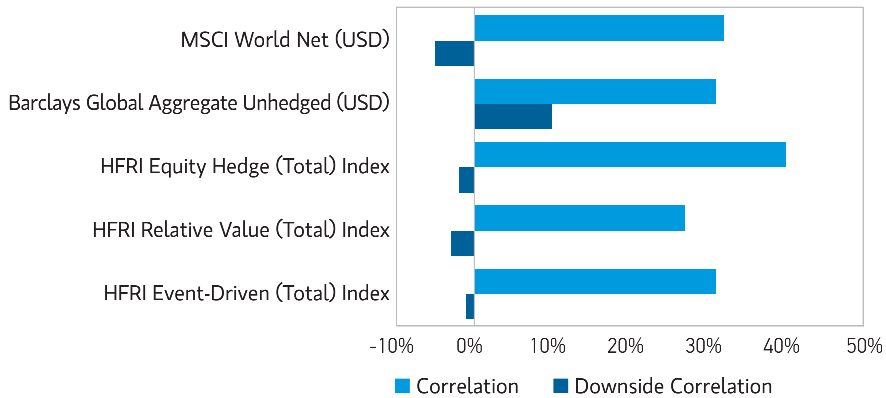
Diversification Benefits: Traditional Markets

As shown in *Display 4*, Global Macro has historically exhibited relatively low correlation to equity and bond markets as well as to other hedge fund strategies. Further, in contrast to most other strategies, Global Macro has also exhibited appealing downside correlations relative to equities, bonds and other hedge fund strategies. This can be well understood given its lower exposure to systematic liquidity risk and systemic deleveraging risk.

DISPLAY 4

Historically Low Correlations to Traditional Asset Classes and Other Hedge Fund Strategies

01/2005 through 06/2018



Source: Hedge Fund Research, Inc. for HFRI indices; Bloomberg for all other indices.

Looking Ahead – Environmental Considerations

Broadly, Global Macro investments tend to perform best in high uncertainty/high volatility environments where macro factors exert a meaningful influence on asset pricing. These types of markets affect factors such as interest rate differentials, foreign exchange[11] balances, and the consequent over and under valuation of asset classes and sectors, which may be exploited through nimble and tactical positioning. For the reasons stated above, we believe today's markets are moving toward a state of disequilibrium that makes current asset valuations increasingly fragile. In other words, the current environment seems to be one in which Global Macro would be well-positioned for strong performance.

Section 3: Implementation Options

We believe an allocation to Global Macro makes sense for any well-diversified portfolio, and we believe investors should bear in mind three things when considering how to implement an allocation: 1) the inherently high volatility of most of Global Macro managers; 2) the heterogeneity of the manager universe; and 3) the wide dispersion of returns within the universe. An investor who allocates directly to Global Macro funds is exposed to the risks associated with manager selection and concentration. We believe this makes the case for an actively managed and diversified portfolio of Global Macro managers.

MANAGER SELECTION/SKILL: As markets become increasingly efficient, many Global Macro managers have fought the inevitable forecasting degradation by applying a more granular approach in hopes of improving their directional forecasting abilities. This movement toward specialization has resulted in a much broader and more heterogeneous set of Global Macro participants.

If an investor were to invest directly in a relatively small number of managers, it would potentially limit the investor's ability to generate additional returns by identifying, sizing and timing investments in a broad range of specialized funds. However, selecting, sizing and monitoring a broader range of Global Macro managers requires substantial resources.

Further, though the wide dispersion of manager returns presents challenges from an adverse selection standpoint, this same dispersion offers substantial opportunity for additional returns through careful selection, making Global Macro a particularly attractive strategy for highly "skilled" allocators.

[11] Please see Glossary for definitions.

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Display 5 highlights the dispersion of 3-year rolling returns among Macro Funds reporting into the HFR database.

CONCENTRATION RISK/ DIVERSIFICATION:[12] Another approach to potentially improving risk-adjusted returns is to diversify across uncorrelated strategies. In the context of Global Macro, managers that employ similar approaches tend to be highly correlated. On the other hand, correlations of managers with different styles and strategies can be very low, and, in certain cases, negative.

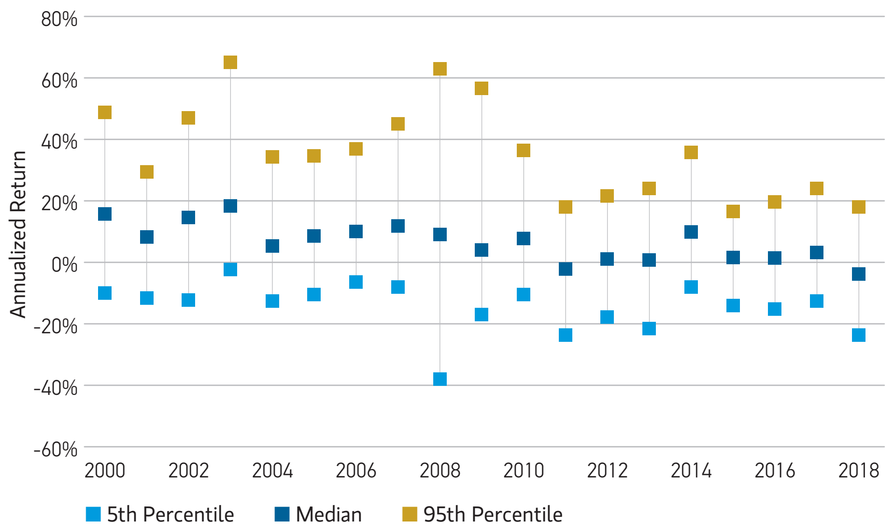
Further complicating the diversification issue is the pronounced post-2008 trend, particularly among discretionary managers, away from an exclusive focus on top-down directional trading of highly liquid instruments and toward a multi-strategy approach that uses less liquid and non-directional "diversifying" strategies. Though this trend may ultimately lead to more stable stand-alone returns over time, it may also lead to reduced diversification benefits relative to traditional and alternative strategies, particularly during times of stress.

As such, we believe it is important to use a disciplined portfolio construction methodology that seeks to: 1) maximize diversification; 2) identify style-pure Global Macro managers; and 3) dynamically allocate across managers and styles according to the environment. Successfully executed, such a multi-manager approach could result in a more efficient, diversifying and controlled exposure to Global Macro than investing directly in a handful of managers.

DISPLAY 5

Global Macro Universe Is Heterogenous

Annual Returns of Macro Funds in HFR Database
January 1, 2000 through June 30, 2018



Source: Hedge Fund Research Inc.

Conclusion

Over time, Global Macro has demonstrated its ability to perform differently from other asset classes and to weather difficult market conditions, making it a valuable component of any well-diversified portfolio. And as we've explained, we believe the most efficient and effective way to gain exposure to this heterogenous investment strategy is through an actively managed, multi-manager portfolio. Furthermore, we believe Global Macro is poised for a period of strong performance, amid myriad sources of geopolitical, economic and policy uncertainty and a backdrop of high asset valuations.

[12] Diversification does not eliminate the risk of loss.

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About the Author

MARK VAN DER ZWAN, CFA

Chief Investment Officer and Head of the AIP Hedge Fund Team

Mark is the Chief Investment Officer and Head of the AIP Hedge Fund team and a member of the Investment Committee. He joined Morgan Stanley Investment Management in 2004 and has 20 years of industry experience. Prior to joining the firm, Mark was a senior consultant for Alan D. Biller & Associates, an institutional investment consulting firm, where he was responsible for hedge fund manager selection. Previously, he was a researcher at the National Research Council of Canada, where he performed advanced computational modeling. Mark received both a B.Sc. with honors in chemistry and an MBA in finance from Queen's University in Ontario, Canada. Mark holds the Chartered Financial Analyst designation.

ROBERT RAFTER, CFA

Executive Director

Rob serves as Head of Discretionary Global Macro, Sovereign Fixed Income Relative Value and Emerging Markets Strategies for the Morgan Stanley Alternative Investment Partners Hedge Funds group. He joined Morgan Stanley AIP in 2011 and has 15 years of professional experience. Prior to joining the firm, Rob served as vice president responsible for hedge fund investments at Colchis Capital Management, a boutique alternative investment manager. Previously, he was a segment producer at CNBC Business News and an analyst at Lehman Brothers, where he worked on the central funding desk within the Fixed Income Division. Rob received a B.A. in government from Georgetown University. He is a member of the Bond Club of Philadelphia and the CFA Society of Philadelphia. Rob holds the Chartered Financial Analyst designation.

Risk Considerations

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.

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 Investment Adviser effectively to select hedge funds and allocate and reallocate the 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. Similarly, in addition to asset-based fees based on the portfolio's net assets, the Investment Adviser or one of its affiliates will also receive performance-based compensation (the "Performance Incentive"). The receipt of a performance or incentive fee or allocation by a hedge fund's investment manager or of the Performance Incentive by the Investment Adviser or one of its affiliates may create an incentive for the hedge fund's investment manager or the Investment Adviser, respectively, 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. Each Fund named and described in this Presentation which is offered to investors in the United States and is not registered with the SEC under the ICA is excluded from the ICA's definition of "investment company." 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.

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 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 estimates only, 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 has 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.

The activities of BHCs and their affiliates are subject to certain restrictions imposed by the BHCA and related regulations. Because Morgan Stanley may be deemed to "control" a Fund within the meaning of the BHCA, these restrictions could apply to such Fund as well. These restrictions may materially adversely affect the Fund, among other ways, by imposing a maximum holding period on some or all of the Fund's investments; limiting the amount of an entity's beneficial ownership interests which the Fund may hold; restricting the ability of Morgan Stanley, the Adviser, the AIP affiliate which serves as general partner or manager of the relevant Fund (the "General Partner"), or their affiliates to invest in the Fund or to participate in the management and operations of the entities in which the Fund or an Investment Fund invests; or affecting either the ability of the Adviser to pursue certain strategies within the Fund's investment program or the ability of the Fund, Morgan Stanley, the General Partner, the Adviser, or any of their respective affiliates to invest in certain Investment Funds. 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 General Partner and the Adviser) with positions held by the Fund (and, in certain instances, one or more Investment Funds). Moreover, Morgan Stanley may cease in the future to qualify as an FHC, which in either case may subject the Fund to additional restrictions or cause the General Partner 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.

Morgan Stanley may in the future, in its sole discretion, restructure the Fund, the General Partner, or the Adviser in order to reduce or eliminate the impact or applicability of these bank regulatory restrictions on the Fund or other funds and accounts managed by the Adviser or any of its affiliates. Morgan Stanley may seek to accomplish this result by causing another entity to replace the Fund's current General Partner, transferring ownership of the General Partner or the Adviser, reducing the amount of Morgan Stanley's investment in the Fund (if any), effecting any combination of the foregoing, or implementing 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, the General Partner may in its sole discretion assign its right to receive any performance fee or allocation or cause another entity to be admitted to the Fund for the purpose of receiving such performance fee or allocation.

Recent Regulatory Events. On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"). Section 619 of the Dodd-Frank Act contains the "**Statutory Volcker Rule**," which took effect on July 21, 2012. The Dodd-Frank Act mandated that five regulatory agencies of the U.S. Government jointly adopt regulations implementing the Statutory Volcker Rule, and, in December 2013, these agencies issued final implementing regulations (such regulations, collectively with the Statutory Volcker Rule, the "**Volcker Rule**"). Among other things, the Volcker Rule severely limits the extent to which any covered "banking entity" may sponsor, or hold an equity, partnership, or other ownership interest (in each case, an "**Ownership Interest**") in, certain types of private investment funds (generally including hedge funds and private equity funds). Due to additional action by the Board of Governors of the Federal Reserve System (the "**Federal Reserve**"), the Volcker Rule also requires that covered banking entities bring themselves into compliance by July 21, 2015 (subject to up to two one-year extensions if the Federal Reserve determines any such extension to be both consistent with the purposes of the Volcker Rule and not detrimental to the public interest).

Morgan Stanley and its affiliates (each a "**Morgan Stanley Affiliate**") are covered banking entities for purposes of the Volcker Rule. Consequently, the Volcker Rule limits Morgan Stanley Affiliates' aggregate Ownership Interests in hedge funds and private equity funds to a maximum of 3% of Morgan Stanley's Tier 1 Capital. In addition, Morgan Stanley Affiliates, in aggregate, will be able to own no more than 3% of the total Ownership Interests of any hedge fund or private equity fund organized and privately offered by a Morgan Stanley Affiliate (each a "**Covered Fund**"), such as the Fund. Moreover, no Morgan Stanley Affiliate will be permitted, directly or indirectly, to guarantee, to assume, or

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otherwise to insure the obligations or performance of Covered Funds or of any funds in which such Covered Funds invest. The Volcker Rule will also prohibit Morgan Stanley Affiliates from engaging in certain "covered transactions" with any Covered Fund, such as an extending credit or providing any financial guarantee or other similar financial support to a Covered Fund. The Volcker Rule may require Morgan Stanley Affiliates, including any Affiliated General Partner, the Investment Adviser, or both, to restructure or terminate their respective relationships with the Fund. During the applicable transition period for Morgan Stanley to become compliant with the requirements of the Volcker Rule, a Covered Fund and any offshore fund formed for the purpose of investing in such Covered Fund may need to change its name so as to avoid sharing a name with any Morgan Stanley Affiliate. Also, the Affiliated General Partner (if any), the Investment Adviser, and any other Morgan Stanley Affiliate invested in the Fund may need to reduce its Ownership Interest in the Fund in order for Morgan Stanley to meet the limitation that no more than 3% of Morgan Stanley's Tier 1 Capital be invested in hedge funds and private equity funds or the limitation that Morgan Stanley Affiliates own no more than 3% of the Fund's total Ownership Interests. Any of the Fund, the Affiliated General Partner (if any), or the Investment Adviser may also be required to take other actions. Morgan Stanley currently believes that any investments by Morgan Stanley Affiliates should comply with the applicable Volcker Rule limitations described above.

Because the Dodd-Frank Act and the Volcker Rule are such recent legislative and regulatory changes and because additional regulatory guidance and interpretations regarding the Volcker Rule may be issued in the future, the full scope of the impact and the requirements of both the Dodd-Frank Act and the Volcker Rule is not yet known, and other direct or indirect legal and regulatory consequences of the Dodd-Frank Act and the Volcker Rule may affect Morgan Stanley, any Affiliated General Partner, the Investment Adviser, or other Morgan Stanley Affiliates and may result in a material adverse effect on the Fund.

GLOSSARY

Alpha: "Alpha" is a risk-adjusted measure of the so-called "excess return" on an investment. It is a common measure of assessing an active manager's performance.

Beta: "Beta" is a measure of the sensitivity of a manager's returns to the performance of the markets. It is an estimate in percentage terms of, all else equal, how a one-percentage point change in a particular market (or index) will be reflected in the manager's returns.

Correlation: Statistical measure of the degree to which the movements of two variables are related.

Commodities: A basic good used in commerce that is interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers. When they are traded on an exchange, commodities must also meet specified minimum standards, also known as a basis grade.

Dispersion: A term used in statistics that refers to the location of a set of values relative to a mean or average level. In finance, dispersion is used to measure the volatility of different types of investment strategies. Returns that have wide dispersions are generally seen as more risky because they have a higher probability of closing dramatically lower than the mean. In practice, standard deviation is the tool that is generally used to measure the dispersion of returns.

Foreign Exchange: The exchange of one currency for another, or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around-the-clock. The term foreign exchange is usually abbreviated as "forex" and occasionally as "FX."

Fundamental Inputs (basis for investment views): Use valuation techniques and macroeconomic variables as inputs to investment decisions.

Systematic Style (application of views): No human intervention in trade generation.

Technical Inputs (basis for investment views): Employ market-based (e.g., price and volume) information as inputs to trading decisions.

Volatility: A statistical measure of the tendency of a market or security to rise or fall sharply within a period of time – usually measured by standard deviation.

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INDEX DESCRIPTIONS

Hedge Fund Research, Inc. (HFRI) Macro (Total) Index. The HFRI Macro (Total) Index consists of investment managers which trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top-down and bottom-up theses, quantitative and fundamental approaches and long and short-term holding periods. Although some strategies employ RV techniques, Macro strategies are distinct from RV strategies in that the primary investment thesis is predicated on predicted or future movements in the underlying instruments, rather than realization of a valuation discrepancy between securities. In a similar way, while both Macro and Equity Hedge managers may hold equity securities, the overriding investment thesis is predicated on the impact movements in underlying macroeconomic variables may have on security prices, as opposed to EH, in which the fundamental characteristics on the company are the most significant are integral to investment thesis, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios.

Hedge Fund Research, Inc. (HFRI) Relative Value (Total) Index. The HFRI Relative Value (Total) Index consists of investment managers who maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative or other security types.

Hedge Fund Research, Inc. (HFRI) Event Driven (Total) Index. The HFRI Event Driven (Total) Index consists of investment managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event Driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company specific developments. Investment theses are typically predicated on fundamental characteristics (as opposed to quantitative), with the realization of the thesis predicated on a specific development exogenous to the existing capital structure.

Hedge Fund Research, Inc. (HFRI) Equity Hedge (Total) Index (long/short equity). The HFRI Equity Hedge (Total) Index consists of managers who maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure and leverage employed.

Barclay CTA Index: The Barclays CTA Index is a leading industry benchmark of representative performance of commodity trading advisors. The index is unweighted and rebalanced at the beginning of each year. To qualify for inclusion in the CTA Index, an advisor must have four years of prior performance history. Additional programs introduced by qualified advisors are not added to the Index until after their second year. These restrictions, which offset the high turnover rates of trading advisors as well as their artificially high short-term performance records, ensure the accuracy and reliability of the Barclay CTA Index.

Barclays Global Aggregate Index (Hedged USD): The Barclays Global Aggregate Index provides a broad-based measure of the global investment grade fixed-rate debt markets. Total Returns shown in hedged USD.

S&P 500 Total Return Index: The S&P 500 Total Return Index is an index that consists of 500 stocks chosen for market size, liquidity and industry group representation. The S&P Index is a market value weighted index with each stock's weight proportionate to its market value. The S&P Index is one of the most widely used benchmarks of U.S. equity performance. The performance of the S&P Index does not account for any management

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fees, incentive compensation, commissions or other expenses that would be incurred pursuing such strategy. Total return provides investors with a price-plus-gross cash dividend return. Gross cash dividends are applied on the ex-date of the dividend.

MSCI World Index: The MSCI World Index is a free float adjusted market capitalization weighted index that is designed to measure the global equity market performance of developed markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of gross of dividends.

Hedge Fund Research, Inc. (HFRI) Event-Driven: Distressed/Restructuring Index. Distressed/Restructuring strategies which employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings. Managers are typically actively involved with the management of these companies, frequently involved on creditors' committees in negotiating the exchange of securities for alternative obligations, either swaps of debt, equity or hybrid securities. Managers employ fundamental credit processes focused on valuation and asset coverage of securities of distressed firms; in most cases portfolio exposures are concentrated in instruments which are publicly traded, in some cases actively and in others under reduced liquidity but in general for which a reasonable public market exists. In contrast to Special Situations, Distressed Strategies employ primarily debt (greater than 60%) but also may maintain related equity exposure.

Hedge Fund Research, Inc. (HFRI) Relative Value: Fixed Income Corporate Index. Fixed Income: Corporate includes strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a corporate fixed income instrument. Strategies employ an investment process designed to isolate attractive opportunities between a variety of fixed income instruments, typically realizing an attractive spread between multiple corporate bonds or between a corporate and risk-free government bond. Fixed Income: Corporate strategies differ from Event Driven: Credit Arbitrage in that the former more typically involve more general market hedges which may vary in the degree to which they limit fixed income market exposure, while the later typically involve arbitrage positions with little or no net credit market exposure, but are predicated on specific, anticipated idiosyncratic developments.

Hedge Fund Research, Inc. (HFRI) Equity Hedge: Equity Market Neutral Index. Equity Market Neutral strategies employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. These can include both Factor-based and Statistical Arbitrage/Trading strategies. Factor-based investment strategies include strategies in which the investment thesis is predicated on the systematic analysis of common relationships between securities. In many but not all cases, portfolios are constructed to be neutral to one or multiple variables, such as broader equity markets in dollar or beta terms, and leverage is frequently employed to enhance the return profile of the positions identified. Statistical Arbitrage/Trading strategies consist of strategies in which the investment thesis is predicated on exploiting pricing anomalies which may occur as a function of expected mean reversion inherent in security prices; high frequency techniques may be employed and trading strategies may also be employed on the basis of technical analysis or opportunistically to exploit new information the investment manager believes has not been fully, completely or accurately discounted into current security prices. Equity Market Neutral Strategies typically maintain characteristic net equity market exposure no greater than 10% long or short.

Hedge Fund Research, Inc. (HFRI) Emerging Markets (Total) Index. Emerging Markets funds invest, primarily long, in securities of companies or the sovereign debt of developing or "emerging" countries. Emerging Markets regions include Africa, Asia ex-Japan, Latin America, the Middle East and Russia/Eastern Europe. Emerging Markets - Global funds will shift their weightings among these regions according to market conditions and manager perspectives.

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