Morgan Stanley

ALTERNATIVE INVESTMENT PARTNERS ABSOLUTE RETURN FUND STS

Consolidated Financial Statements with Report of Independent Registered Public Accounting Firm

For the Year Ended December 31, 2016

ALTERNATIVE INVESTMENT PARTNERS

Morgan Stanley

Alternative Investment Partners Absolute Return Fund STS
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For the Year Ended December 31, 2016

Contents

Report of Independent Registered Public Accounting Firm....1

Audited Consolidated Financial Statements

Consolidated Statement of Assets and Liabilities....2
Consolidated Statement of Operations....3
Consolidated Statements of Changes in Net Assets....4
Consolidated Statement of Cash Flows....5
Notes to Consolidated Financial Statements....6

Proxy Voting Policies and Procedures and Proxy Voting Record (Unaudited)....12
Quarterly Portfolio Schedule (Unaudited)....12
Information Concerning Trustees and Officers (Unaudited)....13

Audited financial statements for Alternative Investment Partners Absolute Return Fund for the year ended December 31, 2016 are attached to these consolidated financial statements and are an integral part thereof.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of
Alternative Investment Partners Absolute Return Fund STS

We have audited the accompanying consolidated statement of assets and liabilities of Alternative Investment Partners Absolute Return Fund STS (the "Fund"), as of December 31, 2016 and the related consolidated statements of operations and cash flows for the year then ended, the consolidated statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2016, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the consolidated financial position of Alternative Investment Partners Absolute Return Fund STS at December 31, 2016, the consolidated results of its operations and its cash flows for the year then ended, the consolidated changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Philadelphia, Pennsylvania
February 28, 2017

Alternative Investment Partners Absolute Return Fund STS
Consolidated Statement of Assets and Liabilities
December 31, 2016

Assets		
Investment in Alternative Investment Partners Absolute Return Fund, at fair value	$	307,270,203
Cash		225,842
Repurchases receivable from Alternative Investment Partners Absolute Return Fund		20,775,534
Withholding tax credit		88,393
Other assets		8,601
Total assets		328,368,573
Liabilities		
Payable for share repurchases		20,775,534
Subscriptions received in advance		166,050
Accrued expenses and other liabilities		203,897
Total liabilities		21,145,481
Net assets	$	307,223,092
Net assets consist of:		
Net capital	$	230,925,951
Net unrealized appreciation on investments		76,297,141
Net assets	$	307,223,092
Net asset value per share: 214,542.753 shares issued and outstanding, no par value, 1,000,000 registered shares	$	1,431.99
Maximum offering price per share ($1,431.99 plus sales load of 3% of net asset value per share)	$	1,474.95

See accompanying notes and attached audited financial statements for Alternative Investment Partners Absolute Return Fund.

Alternative Investment Partners Absolute Return Fund STS
Consolidated Statement of Operations
For the Year Ended December 31, 2016

Net investment income (loss) allocated from Alternative Investment Partners Absolute Return Fund		
Dividend income	$	29,670
Expenses		(8,175,798)
Net investment income (loss) allocated from Alternative Investment Partners Absolute Return Fund		(8,146,128)
Fund expenses		
Withholding taxes		1,104,702
Transfer agent fees		204,824
Professional fees		125,356
Printing fees		68,403
Registration fees		64,919
Trustees' fees		840
Custody fees		236
Other		8,795
Total fund expenses		1,578,075
Net investment income (loss)		(9,724,203)
Realized and unrealized gain (loss) from investments allocated from Alternative Investment Partners Absolute Return Fund		
Net realized gain (loss) from investments in investment funds		15,123,742
Net change in unrealized appreciation (depreciation) on investments		(10,252,498)
Net realized and unrealized gain (loss) from investments allocated from Alternative Investment Partners Absolute Return Fund		4,871,244
Net increase (decrease) in net assets resulting from operations	$	(4,852,959)

See accompanying notes and attached audited financial statements for Alternative Investment Partners Absolute Return Fund.

Alternative Investment Partners Absolute Return Fund STS
Consolidated Statements of Changes in Net Assets

For the year ended December 31, 2015		
Net increase (decrease) in net assets resulting from operations:		
Net investment income (loss)	$	(9,283,653)
Net realized gain (loss) from investments		27,871,086
Net change in unrealized appreciation/depreciation on investments		(4,005,338)
Net increase (decrease) in net assets resulting from operations		14,582,095
Shareholder transactions		
Subscriptions (representing 9,259.171 shares)		13,204,648
Repurchases (representing 21,264.165 shares)		(30,486,279)
Net increase (decrease) in net assets from shareholder transactions		(17,281,631)
Total increase (decrease) in net assets		(2,699,536)
Net assets, beginning of year (representing 249,551.014 shares)		347,330,006
Net assets, end of year (representing 237,546.020 shares)	$	344,630,470
For the year ended December 31, 2016		
Net increase (decrease) in net assets resulting from operations:		
Net investment income (loss)	$	(9,724,203)
Net realized gain (loss) from investments		15,123,742
Net change in unrealized appreciation (depreciation) on investments		(10,252,498)
Net increase (decrease) in net assets resulting from operations		(4,852,959)
Shareholder transactions		
Subscriptions (representing 6,879.540 shares)		9,701,720
Repurchases (representing 29,882.807 shares)		(42,256,139)
Net increase (decrease) in net assets from shareholder transactions		(32,554,419)
Total increase (decrease) in net assets		(37,407,378)
Net assets, beginning of year (representing 237,546.020 shares)		344,630,470
Net assets, end of year (representing 214,542.753 shares)	$	307,223,092

See accompanying notes and attached audited financial statements for Alternative Investment Partners Absolute Return Fund.

Alternative Investment Partners Absolute Return Fund STS
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2016

Cash flows from operating activities	
Net increase (decrease) in net assets resulting from operations	$ (4,852,959)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:	
Net investment (income) loss allocated from Alternative Investment Partners Absolute Return Fund	8,146,128
Net change in unrealized (appreciation) depreciation on investments allocated from Alternative Investment Partners Absolute Return Fund	10,252,498
Net realized (gain) loss from investments allocated from Alternative Investment Partners Absolute Return Fund	(15,123,742)
Purchase of investments in Alternative Investment Partners Absolute Return Fund	(9,710,418)
Proceeds from sales of investments in Alternative Investment Partners Return Fund	43,452,258
(Increase) decrease in repurchases receivable from Alternative Investment Partners Absolute Return Fund	(13,657,557)
(Increase) decrease in prepaid investment in Alternative Investment Partners Absolute Return Fund	1,122,000
(Increase) decrease in withholding tax credit	212,280
(Increase) decrease in other assets	(76)
Increase (decrease) in accrued expenses and other liabilities	83,063
Net cash provided by (used in) operating activities	19,923,475
Cash flows from financing activities	
Subscriptions (including net change in subscriptions received in advance)	8,745,770
Repurchases (including net change in payable for share repurchase)	(28,598,582)
Net cash provided by (used in) financing activities	(19,852,812)
Net change in cash	70,663
Cash at beginning of year	155,179
Cash at end of year	$ 225,842
Supplemental disclosure of cash flow information:	
Conversion to shareholder subscriptions in 2016 of subscriptions received in advance during 2015	$ 1,122,000

See accompanying notes and attached audited financial statements for Alternative Investment Partners Absolute Return Fund.

Alternative Investment Partners Absolute Return Fund STS
Notes to Consolidated Financial Statements
December 31, 2016

1. Organization and Consolidation

Alternative Investment Partners Absolute Return Fund STS (the "Fund") was organized under the laws of the State of Delaware as a statutory trust on October 31, 2005. The Fund commenced operations on September 1, 2006 and operates pursuant to an Agreement and Declaration of Trust (the "Trust Deed"). The Fund is registered under the U.S. Investment Company Act of 1940, as amended (the "1940 Act"), as a closed-end, non-diversified management investment company. The Fund's term is perpetual unless the Fund is otherwise terminated under the terms of the Trust Deed or unless and until required by law.

The Fund is a "Feeder" fund in a "Master-Feeder" structure whereby the Fund invests substantially all of its assets in AIP Absolute Return Fund LDC (the "Offshore Fund"), a Cayman Islands limited duration company, which in turn invests substantially all of its assets in Alternative Investment Partners Absolute Return Fund (the "Master Fund"). The Master Fund is a statutory trust organized under the laws of the State of Delaware and is registered under the 1940 Act, as a closed-end, non-diversified, management investment company. Morgan Stanley AIP GP LP serves as the Master Fund's investment adviser (the "Investment Adviser") and Morgan Stanley Investment Management Limited serves as the Master Fund's sub-adviser (the "Sub-Adviser") (collectively with the Investment Adviser, the "Adviser"). Each of the Investment Adviser and Sub-Adviser is an affiliate of Morgan Stanley and is registered as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended. The Master Fund has the same investment objective as the Fund and the Offshore Fund. The Master Fund's investment objective is to seek capital appreciation principally through investing in investment funds ("Investment Funds") managed by third party investment managers who employ a variety of "absolute return" investment strategies in pursuit of attractive risk-adjusted returns consistent with the preservation of capital. "Absolute return" refers to a broad class of investment strategies that are managed without reference to the performance of equity, debt and other markets. "Absolute return" investment strategies allow investment managers the flexibility to use leveraged or short-sale positions to take advantage of perceived inefficiencies across the global capital markets. The Master Fund may seek to gain investment exposure to certain Investment Funds or to adjust market or risk exposure by entering into derivative transactions such as total return swaps, options and futures.

The Fund consolidates the Offshore Fund, a wholly-owned subsidiary, and has included all of the assets and liabilities and revenues and expenses of the Offshore Fund in the accompanying financial statements. Intercompany balances have been eliminated through consolidation. As of December 31, 2016, the Fund had a 61.29% indirect ownership interest in the Master Fund. The financial statements of the Master Fund, including the Schedule of Investments, are attached to this report and should be read in conjunction with the Fund's consolidated financial statements.

The Fund has a Board of Trustees (the "Board") that has overall responsibility for monitoring and overseeing the Fund's investment program and its management and operations. A majority of the members of the Board (the "Trustees") are not "interested persons" (as defined by the 1940 Act) of the Fund, the Investment Adviser or the Sub-Adviser. The same Trustees also serve as the Master Fund's Board of Trustees.

Alternative Investment Partners Absolute Return Fund STS
Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies

The following significant accounting policies are in conformity with U.S. generally accepted accounting principles ("US GAAP"). Such policies are consistently followed by the Fund in preparation of its consolidated financial statements. Management has determined that the Fund is an investment company in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946, "Financial Services – Investment Companies," for the purpose of financial reporting. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases or decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

Investment in the Fund

The Fund offers on a continuous basis through Morgan Stanley Distribution, Inc. (the "Distributor"), an affiliate of Morgan Stanley, 1,000,000 shares of beneficial interest ("Shares"). The initial closing date ("Initial Closing Date") for public offering of Shares was September 1, 2006. Shares were offered until the Initial Closing Date at an initial offering price of $1,000 per Share, plus any applicable sales load, and have been continuously offered thereafter for purchase as of the first day of each calendar month at the Fund's then current net asset value per Share, plus any applicable sales load. The Distributor may enter into selected dealer agreements with various brokers and dealers ("Selling Agents"), some of which are affiliates of the Fund, that have agreed to participate in the distribution of the Fund's Shares. Shares may also be purchased through any registered investment adviser (a "RIA") that has entered into an arrangement with the Distributor for such RIA to recommend Shares to its clients in conjunction with a "wrap" fee, asset allocation or other managed asset program by such RIA.

Shares are sold only to certain special tax status investors ("Shareholders"), namely tax-exempt and tax-deferred investors. These investors also must represent that they are "accredited investors" within the meaning of Rule 501(a) of Regulation D promulgated under the U.S. Securities Act of 1933, as amended. The Distributor or any Selling Agent or RIA may impose additional eligibility requirements for investors who purchase Shares through the Distributor or such Selling Agent or RIA. The minimum initial investment in the Fund by any Shareholder is $50,000. The minimum additional investment in the Fund by any Shareholder is $25,000. The minimum initial and additional investments may be reduced by the Fund with respect to certain Shareholders. Shareholders may only purchase their Shares through the Distributor, a Selling Agent or a RIA.

The Distributor and Selling Agents may charge Shareholders a sales load of up to 3% of the Shareholder's purchase. The Distributor or a Selling Agent may, in its discretion, waive the sales load for certain investors. In addition, purchasers of Shares in conjunction with certain "wrap" fee, asset allocation or other managed asset programs sponsored by an investment adviser, including an affiliate of the Adviser, or Morgan Stanley and its affiliates (including the Adviser) and the directors, partners, principals, officers and employees of Morgan Stanley and its affiliates may not be charged a sales load by the Distributor or Selling Agent.

Alternative Investment Partners Absolute Return Fund STS
Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Investment in the Fund (continued)

The Fund may from time to time offer to repurchase Shares (or portions of them) at net asset value pursuant to written tenders by Shareholders. Any offer to repurchase Shares by the Fund is only made to Shareholders at the same times as, and in parallel with, each repurchase offer made by the Master Fund to its investors, including, indirectly, the Fund. Each such repurchase offer made by the Master Fund will generally apply to up to 15% of the net assets of the Master Fund. Repurchases are made at such times, in such amounts and on such terms as may be determined by the Board, in its sole discretion. In determining whether the Fund should offer to repurchase Shares (or portions of them) from Shareholders, the Board will consider the recommendations of the Adviser as to the timing of such an offer, as well as a variety of operational, business and economic factors. The Adviser expects that it will recommend to the Board that the Fund offer to repurchase Shares (or portions of them) from Shareholders quarterly, on each March 31, June 30, September 30 and December 31. In general, the Fund will initially pay at least 90% of the estimated value of the repurchased Shares to Shareholders as of the later of: (1) a period of within 30 days after the value of the Shares to be repurchased is determined, or (2) if the Master Fund has requested withdrawals of its capital from any Investment Funds in order to fund the repurchase of Shares, within ten business days after the Master Fund has received at least 90% of the aggregate amount withdrawn by the Master Fund from such Investment Funds. The remaining amount (the “Holdback Amount”) will be paid promptly after completion of the annual audit of the Fund and preparation of the Fund’s audited consolidated financial statements. As of December 31, 2016, the total of all Shareholders’ Holdback Amounts was $1,498,385 which includes any Holdback Amount for repurchases as of December 31, 2016, and is included in payable for share repurchases in the Consolidated Statement of Assets and Liabilities.

Investment in the Master Fund

The Fund records its investment in the Master Fund at fair value which is represented by the Fund’s proportionate indirect interest in the net assets of the Master Fund as of December 31, 2016. Valuation of Investment Funds and other investments held by the Master Fund, including the Master Fund’s disclosure of investments under the three-tier hierarchy, is discussed in the notes to the Master Fund’s financial statements. The Fund records its pro rata share of the Master Fund’s income, expenses and realized and unrealized gains and losses. The performance of the Fund is directly affected by the performance of the Master Fund. The financial statements of the Master Fund, which are attached, are an integral part of these consolidated financial statements. Please refer to the accounting policies disclosed in the financial statements of the Master Fund for additional information regarding significant accounting policies that affect the Fund.

Alternative Investment Partners Absolute Return Fund STS
Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Income Recognition and Expenses

The Fund recognizes income and expenses on an accrual basis. Income, expenses and realized and unrealized gains and losses are recorded monthly. The Fund accrues its own expenses. The Fund does not pay the Adviser a management fee. As an indirect holder of shares in the Master Fund, however, the Fund does bear its allocable portion (based on the net asset value of the Master Fund attributable to the Fund) of the expenses of the Master Fund, including the management fee paid to the Investment Adviser and shareholder servicing fees paid to the Distributor as described in the Master Fund's financial statements. Please refer to the attached financial statements of the Master Fund for a discussion of the computation of the management fee and shareholder servicing fee. Included in expenses allocated from the Master Fund in the Consolidated Statement of Operations is $3,315,327 and $2,482,108, which are the Fund's proportionate share of management fees and shareholder servicing fees, respectively, incurred by the Master Fund for the year ended December 31, 2016.

Third-Party Service Providers

State Street Bank and Trust Company ("State Street") provides accounting and administrative services to the Fund. State Street also serves as the Fund's custodian.

UMB Fund Services, Inc. serves as the Funds transfer agent. Transfer agent fees are payable monthly based on an annual Fund base fee, annual per Shareholder account changes, and out-of-pocket expenses incurred by the transfer agent on the Fund's behalf.

Income and Withholding Taxes

The Fund expects to be treated as a partnership for U.S. federal income tax purposes. No provision for federal, state, or local income taxes is required in the consolidated financial statements. In accordance with the U.S. Internal Revenue Code of 1986, as amended, each of the Shareholders is to include its respective share of the Fund's realized profits or losses in its individual tax returns. The Fund files tax returns with the U.S. Internal Revenue Service and various states.

The Master Fund is required to withhold up to 30% U.S. tax from U.S. source dividends and 35% U.S. tax from effectively connected income allocable to its non-U.S. Shareholders and to remit those amounts to the U.S. Internal Revenue Service on behalf of non-U.S. Shareholders. If the Master Fund incurs a withholding tax or other tax obligation with respect to the share of the Master Fund's income allocable to any Shareholder, then the Master Fund, without limitation of any other rights of the Fund, will cause a Share repurchase from the Master Fund in the amount of the tax obligation. The amount of the tax obligation attributable to the Fund will be treated as an expense by the Fund.

Alternative Investment Partners Absolute Return Fund STS
Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Income and Withholding Taxes (continued)

For the year ended December 31, 2016, the Master Fund recorded an estimated tax withholding amount of $1,104,702 related to the Fund's share of withholding taxes, which is included in the Fund's Consolidated Statement of Operations.

The Fund has concluded there are no significant uncertain tax positions that would require recognition in the consolidated financial statements as of December 31, 2016. If applicable, the Fund recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in other expenses in the Consolidated Statement of Operations. Generally, open tax years under potential examination vary by jurisdiction, but at least each of the tax years in the four-year period ended December 31, 2016, remains subject to examination by major taxing authorities.

3. Contractual Obligations

The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

Alternative Investment Partners Absolute Return Fund STS
Notes to Consolidated Financial Statements (continued)

4. Financial Highlights

The following represents per Share data, ratios to average net assets and other financial highlights information for Shareholders.

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012
For a Share outstanding throughout the year:					
Net asset value, beginning of year	$ 1,450.79	$ 1,391.82	$ 1,282.89	$ 1,161.53	$ 1,049.63
Net investment income (loss) [(a)]	(41.35)	(37.78)	(36.69)	(34.37)	(32.01)
Net realized and unrealized gain (loss) from investments	22.55	96.75	145.62	155.73	143.91
Net increase (decrease) resulting from operations	(18.80)	58.97	108.93	121.36	111.90
Net asset value, end of year	$ 1,431.99	$ 1,450.79	$ 1,391.82	$ 1,282.89	$ 1,161.53
Total return [(b)]	(1.30%)	4.24%	8.49%	10.45%	10.66%
Ratio of total expenses [(c)]	2.94%	2.64%	2.76%	2.82%	2.89%
Ratio of net investment income (loss) [(d)]	(2.93%)	(2.64%)	(2.76%)	(2.82%)	(2.89%)
Portfolio turnover [(e)]	21%	20%	17%	24%	11%
Net assets, end of year (000s)	$ 307,223	$ 344,630	$ 347,330	$ 351,618	$ 353,264

(a) Calculated based on the average shares outstanding methodology.
(b) Total return assumes a subscription of a Share in the Fund at the beginning of the year indicated and a repurchase of the Share on the last day of the year indicated, and does not reflect the impact of the sales load, if any, incurred when subscribing to the Fund.
(c) Includes expenses allocated from the Master Fund.
(d) Includes income and expenses allocated from the Master Fund.
(e) The portfolio turnover rate reflects investment activity of the Master Fund.

The above ratios and total returns have been calculated for the Shareholders taken as a whole. An individual Shareholder's return and ratios may vary from these returns and ratios due to the timing of Share transactions and withholding tax allocation, as applicable.

5. Subsequent Events

Unless otherwise stated throughout the Notes to Consolidated Financial Statements, the Fund noted no subsequent events that require disclosure in or adjustment to the consolidated financial statements.

Alternative Investment Partners Absolute Return Fund STS

Proxy Voting Policies and Procedures and Proxy Voting Record (Unaudited)

A copy of (1) the Master Fund's policies and procedures with respect to the voting of proxies relating to the Investment Funds; and (2) how the Master Fund voted proxies relating to Investment Funds during the most recent 12-month period ended June 30 is available without charge, upon request, by calling the Master Fund at 1-888-322-4675. This information is also available on the Securities and Exchange Commission's website at http://www.sec.gov.

Quarterly Portfolio Schedule (Unaudited)

The Fund also files a complete schedule of portfolio holdings with the Securities and Exchange Commission for the Fund's first and third fiscal quarters on Form N-Q. The Fund's Forms N-Q are available on the Securities and Exchange Commission's website at http://www.sec.gov. The Fund's Forms N-Q may be reviewed and copied at the Securities and Exchange Commission's Public Reference Room in Washington, D.C. and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. Once filed, the most recent Form N-Q will be available without charge, upon request, by calling the Fund at 1-888-322-4675.

Information Concerning Trustees and Officers (Unaudited)

Name, Age and Address	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios Overseen in Fund Complex	Other Trusteeships/Directorships Held Outside the Fund Complex**
Independent Trustees					
Frank L. Bowman (72) c/o Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since August 2006	President, Strategic Decisions, LLC (consulting) (since February 2009); Director or Trustee of Morgan Stanley Funds (since August 2006); Chairperson of the Compliance and Insurance Committee (since October 2015); formerly, Chairperson of the Insurance Sub-Committee of the Compliance and Insurance Committee (2007-2015); served as President and Chief Executive Officer of the Nuclear Energy Institute (policy organization) (February 2005-November 2008), retired as Admiral, U.S. Navy after serving over 38 years on active duty including 8 years as Director of the Naval Nuclear Propulsion Program in the Department of the Navy and the U.S. Department of Energy (1996- 2004); served as Chief of Naval Personnel (July 1994-September 1996) and on the Joint Staff as Director of Political Military Affairs (June 1992-July 1994); knighted as Honorary Knight Commander of the Most Excellent Order of the British Empire; awarded the Officer de l'Orde National du Mérite by the French Government; elected to the National Academy of Engineering (2009).	90	Director of BP p.l.c.; Director of Naval and Nuclear Technologies LLP; Director Emeritus of the Armed Services YMCA; Director of the U.S. Naval Submarine League; Member of the National Security Advisory Council of the Center for U.S. Global Engagement and a member of the CNA Military Advisory Board; Chairman of the charity J Street Cup Golf; Trustee of Fairhaven United Methodist Church; and Director of other various nonprofit organizations.
Kathleen A. Dennis (63) c/oo Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since August 2006	President, Cedarwood Associates (mutual fund and investment management consulting) (since July 2006); Chairperson of the Liquidity and Alternatives Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, Senior Managing Director of Victory Capital Management (1993-2006).	91	Director of various non-profit organizations.
Nancy C. Everett (61) c/o Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since January 2015	Chief Executive Officer, Virginia Commonwealth University Investment Company (since November 2015); Owner, OBIR, LLC (institutional investment management consulting) (since June 2014); formerly, Managing Director, BlackRock, Inc. (February 2011-December 2013); and Chief Executive Officer, General Motors Asset Management (a/k/a Promark Global Advisors, Inc.) (June 2005-May 2010).	91	Member of the Virginia Commonwealth University School of Business Foundation; formerly, Member of Virginia Commonwealth University Board of Visitors (2013-2015); Member of Committee on Directors for Emerging Markets Growth Fund, Inc. (2007-2010); Chairperson of Performance Equity Management, LLC (2006-2010); and Chairperson, GMAM Absolute Return Strategies Fund, LLC (2006-2010).

Information Concerning Trustees and Officers (Unaudited) (continued)

Name, Age and Address	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios Overseen in Fund Complex	Other Trusteeships/Directorships Held Outside the Fund Complex**
Independent Trustees (continued)					
Jakki L. Haussler (59) c/o Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since January 2015	Chairman and Chief Executive Officer, Opus Capital Group (since January 1996); and formerly, Director, Capvest Venture Fund, LP (May 2000-December 2011); Partner, Adena Ventures, LP (July 1999-December 2010); Director, The Victory Funds (February 2005-July 2008)	91	Director of Cincinnati Bell Inc. and Member, Audit Committee and Compensation Committee; Director of Northern Kentucky University Foundation and Member, Investment Committee; Member of Chase College of Law Transactional Law Practice Center Board of Advisors; Director of Best Transport; Chase College of Law Board of Visitors; formerly, Member, University of Cincinnati Foundation Investment Committee; Member, Miami University Board of Visitors (2008-2011); Trustee of Victory Funds (2005-2008) and Chairman, Investment Committee (2007-2008) and Member, Service Provider Committee (2005-2008).
Dr. Manuel H. Johnson (67) c/o Johnson Smick International, Inc. 220 I Street, NE Suite 200 Washington, D.C. 20002	Trustee	Since July 1991	Senior Partner, Johnson Smick International, Inc. (consulting firm); Chairperson of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since July 1991); Co-Chairman and a founder of the Group of Seven Council (G7C) (international economic commission); formerly, Chairperson of the Audit Committee (July 1991-September 2006); Vice Chairman of the Board of Governors of the Federal Reserve System and Assistant Secretary of the U.S. Treasury.	91	Director of NVR, Inc. (home construction).
Joseph J. Kearns (74) c/o Kearns & Associates LLC 46 E. Peninsula Center #385 Rolling Hills Estates, CA 90274-3712	Trustee	Since August 1994	President, Kearns & Associates LLC (investment consulting); Chairperson of the Audit Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 1994); formerly, Deputy Chairperson of the Audit Committee (July 2003-September 2006) and Chairperson of the Audit Committee of various Morgan Stanley Funds (since August 1994); CFO of the J.Paul Getty Trust.	94	Director of Electro Rent Corporation (equipment leasing). Prior to December 31, 2013, Director of The Ford Family Foundation.

Information Concerning Trustees and Officers (Unaudited) (continued)

Name, Age and Address	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios Overseen in Fund Complex	Other Trusteeships/Directorships Held Outside the Fund Complex**
Independent Trustees (continued)					
Michael F. Klein (58) c/o Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since August 2006	Managing Director, Aetos Capital, LLC (since March 2000); Co-President, Aetos Alternatives Management, LLC (since January 2004) and Co-Chief Executive Officer of Aetos Capital LLC (since August 2013); Chairperson of the Fixed Income Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, Managing Director, Morgan Stanley & Co. Inc. and Morgan Stanley Dean Witter Investment Management, President, various Morgan Stanley Funds (June 1998-March 2000) and Principal, Morgan Stanley & Co. Inc. and Morgan Stanley Dean Witter Investment Management (August 1997-December 1999).	90	Director of certain investment funds managed or sponsored by Aetos Capital, LLC; Director of Sanitized AG and Sanitized Marketing AG (specialty chemicals).
Patricia Maleski*** (56) c/o Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since January 2017	Management Director, JPMorgan Asset Management (2013-2016); President, JPMorgan Funds (2010-2013), Chief Administrative Officer, JPMorgan Funds (2004-2010), Treasurer, JPMorgan Funds (2003-2004, 2008-2010), and Vice President and Board Liaison, JPMorgan Funds (2001-2004); Managing Director, J.P. Morgan Investment Management Inc. (2001-2013); Vice President of Finance, Pierpont Group (1996-2001); Vice President, Bank of New York (1995-1996); Senior Audit Manager, Price Waterhouse, LLP (1982-1995).	91	None.
Michael E. Nugent (80) 522 Fifth Avenue New York, NY 10036	Chair of the Board and Trustee	Chair of the Boards since July 2006 and Trustee since July 1991	Chair of the Boards of various Morgan Stanley Funds (since July 2006); Chairperson of the Closed-End Fund Committee (since June 2012) and Director or Trustee of various Morgan Stanley Funds (since July 1991); formerly, Chairperson of the Insurance Committee (until July 2006); General Partner, Triumph Capital, L.P., (private investment partnership) (1988-2013).	92	None.

Information Concerning Trustees and Officers (Unaudited) (continued)

Name, Age and Address	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios Overseen in Fund Complex	Other Trusteeships/Directorships Held Outside the Fund Complex**
Independent Trustees (continued)					
W. Allen Reed (69) c/o Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since August 2006	Chairperson of the Equity Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, President and CEO of General Motors Asset Management; Chairman and Chief Executive Officer of the GM Trust Bank and Corporate Vice President of General Motors Corporation (August 1994-December 2005).	91	Director of Legg Mason, Inc.; formerly, Director of the Auburn University Foundation (2010-2015).
Fergus Reid (84) c/o Joe Pietryka Inc. 85 Charles Colman Blvd. Pawling, NY 12564	Trustee	Since June 1992	Chairman, Joe Pietryka, Inc.; Chairperson of the Governance Committee and Director or Trustee of various Morgan Stanley Funds (since June 1992).	92	Formerly, Trustee and Director of certain investment companies in the JPMorgan Fund complex managed by JP Morgan Investment Management Inc. (1987-2012)

* This is the earliest date the Trustee began serving the Morgan Stanley Funds. Each Trustee serves an indefinite term, until his or her successor is elected.

** This includes any directorships at public companies and registered investment companies held by the Trustee at any time during the past five years.

*** Ms. Maleski joined the Board of Trustees of the Fund as an Independent Trustee effective January 1, 2017.

Information Concerning Trustees and Officers (Unaudited) (continued)

Name, Age and Address	Position(s) Held with Registrant	Length of Time Served**	Principal Occupation(s) During Past 5 Years
Officers *			
John H Gernon (53) 522 Fifth Avenue New York, NY 10036	President and Principal Executive Officer	Since September 2013	President and Principal Executive Officer of the Equity and Fixed Income Funds and the Morgan Stanley AIP Funds (since September 2013) and the Liquidity Funds and various money market funds (since May 2014) in the Fund Complex; Managing Director of the Adviser; Head of Product (since 2006).
Timothy J. Knierim (57) 522 Fifth Avenue New York, NY 10036	Chief Compliance Officer	Since December 2016	Managing Director of the Adviser and various entities affiliated with the Adviser; Chief Compliance Officer of various Morgan Stanley Funds and the Adviser (since December 2016) and Chief Compliance Officer of Morgan Stanley AIP GP LP (since 2014). Formerly, Managing Director and Deputy Chief Compliance Officer of the Adviser (2014-2016); and formerly, Chief Compliance Officer of Prudential Investment Management, Inc. (2007-2014).
Matthew Graver (48) 100 Front Street, Suite 400 West Conshohocken, PA 19428-2881	Vice President	Since June 2008	Chief Operating Officer of the Morgan Stanley Alternative Investment Partners Fund of Hedge Funds group and Managing Director of Morgan Stanley Investment Management Inc. Formerly, Senior Manager at PricewaterhouseCoopers LLP.
Mary E. Mullin (49) 522 Fifth Avenue New York, NY 10036	Secretary	Since June 1999	Executive Director of Morgan Stanley Investment Management Inc.; Secretary of various Morgan Stanley Funds (since June 1999).
Noel Langlois (47) 100 Front Street, Suite 400 West Conshohocken, PA 19428-2881	Treasurer and Chief Financial Officer	Since March 2010	Head of Alternative Investment Services of Morgan Stanley Investment Management and Managing Director of Morgan Stanley Investment Management Inc.; Director of Morgan Stanley Funds plc, Morgan Stanley Multi-Strategy Fund plc, Morgan Stanley Alpha Plus Funds plc, and Morgan Stanley Select Investment Strategies Limited.

* In addition, the following individuals who are officers of Morgan Stanley Investment Management Inc. or its affiliates serve as assistant secretaries of the Fund: Allan Fajardo, Francesca Mead and Sheri Schreck. The following individuals who are officers of Morgan Stanley Investment Management Inc. or its affiliates also serve as assistant treasurers of the Fund: Michael Conklin, Robert Creaney, Marnie Niziolek, Geoff Kron, Lee Spector and Francie Tai.

** This is the earliest date the Officer began serving the Morgan Stanley Funds. Each officer serves an indefinite term, until his or her successor is elected.

Alternative Investment Partners Absolute Return Fund STS

100 Front Street, Suite 400
West Conshohocken, PA 19428

Officers
John H. Gernon, President and Principal Executive Officer
Matthew Graver, Vice President
Timothy Knierim, Chief Compliance Officer
Noel Langlois, Treasurer and Principal Financial Officer
Mary E. Mullin, Secretary

Master Fund's Investment Adviser
Morgan Stanley AIP GP LP
100 Front Street, Suite 400
West Conshohocken, PA 19428

Master Fund's Sub-Adviser
Morgan Stanley Investment Management Limited
25 Cabot Square
Canary Wharf
London E14-4QA, England

Administrator, Custodian, Fund Accounting Agent and Escrow Agent
State Street Bank and Trust Company
One Lincoln Street
Boston, MA 02111

Transfer Agent
UMB Fund Services, Inc.
803 W. Michigan Street
Milwaukee, WI 53233

Independent Registered Public Accounting Firm
Ernst & Young LLP
One Commerce Square
2005 Market Street, Suite 700
Philadelphia, PA 19103

Legal Counsel
Dechert LLP
1095 Avenue of the Americas
New York, NY 10036

Counsel to the Independent Trustees
Perkins Coie LLP
30 Rockefeller Plaza
New York, New York 10112

ALTERNATIVE INVESTMENT PARTNERS Morgan Stanley

ALTERNATIVE INVESTMENT PARTNERS ABSOLUTE RETURN FUND

Financial Statements with Report of
Independent Registered Public Accounting Firm

For the Year Ended December 31, 2016

ALTERNATIVE INVESTMENT PARTNERS

Morgan Stanley

Alternative Investment Partners Absolute Return Fund
Financial Statements with Report of
Independent Registered Public Accounting Firm
For the Year Ended December 31, 2016

Contents

Report of Independent Registered Public Accounting Firm 1

Audited Financial Statements

Statement of Assets and Liabilities 2
Statement of Operations 3
Statements of Changes in Net Assets 4
Statement of Cash Flows 5
Schedule of Investments 6
Notes to Financial Statements 11

Proxy Voting Policies and Procedures and Proxy Voting Record (Unaudited) 22
Quarterly Portfolio Schedule (Unaudited) 22
U.S. Privacy Policy (Unaudited) 23
Information Concerning Trustees and Officers (Unaudited) 28

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of
Alternative Investment Partners Absolute Return Fund

We have audited the accompanying statement of assets and liabilities of Alternative Investment Partners Absolute Return Fund (the “Fund”), including the schedule of investments, as of December 31, 2016, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of investments owned as of December 31, 2016, by correspondence with the custodian, management of the investment funds and others. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Alternative Investment Partners Absolute Return Fund at December 31, 2016, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Philadelphia, Pennsylvania
February 28, 2017

Alternative Investment Partners Absolute Return Fund
Statement of Assets and Liabilities
December 31, 2016

Assets		
Investment in investment funds, at fair value (cost $452,761,878)	$	592,837,397
Short-term investments (cost $3,688,851)		3,688,851
Cash		2,080,307
Prepaid investments in investment funds		2,000,000
Receivable for investments sold		53,761,706
Other assets		39,815
Total assets		654,408,076
Liabilities		
Note payable		109,245,769
Payable for share repurchases		39,665,641
Management fee payable		1,341,579
Shareholder servicing fee payable		1,004,419
Withholding tax payable		907,476
Transfer agent fee payable		29,641
Accrued expenses and other liabilities		851,911
Total liabilities		153,046,436
Net assets	$	501,361,640
Net assets consist of:		
Net capital	$	361,286,121
Net unrealized appreciation on investments		140,075,519
Net assets	$	501,361,640
Net asset value per share:		
315,635.488 shares issued and outstanding, no par value, 1,500,000 registered shares	$	1,588.42
Maximum offering price per share ($1,588.42 plus sales load of 3% of net asset value per share)	$	1,636.07

The accompanying notes are an integral part of these financial statements and should be used in conjunction herewith.

Alternative Investment Partners Absolute Return Fund
Statement of Operations
For the Year Ended December 31, 2016

Investment income	
Dividend	$ 49,082
Expenses	
Management fees	5,480,476
Shareholder servicing fees	4,103,102
Interest expense	2,821,357
Professional fees	381,573
Accounting and administration fees	344,502
Custody fees	132,893
Transfer agent fees	91,750
Registration fees	62,919
Other	96,349
Total expenses	13,514,921
Net investment income (loss)	(13,465,839)
Realized and unrealized gain (loss) from investments	
Net realized gain (loss) from investments in investment funds	25,008,425
Net change in unrealized appreciation (depreciation) on investments in investment funds	(17,251,769)
Net realized and unrealized gain (loss) from investments	7,756,656
Net increase (decrease) in net assets resulting from operations	$ (5,709,183)

The accompanying notes are an integral part of these financial statements and should be used in conjunction herewith.

Alternative Investment Partners Absolute Return Fund
Statements of Changes in Net Assets

For the year ended December 31, 2015		
Net increase (decrease) in net assets resulting from operations:		
Net investment income (loss)	$	(13,912,626)
Net realized gain (loss) from investments		46,439,422
Net change in unrealized appreciation/depreciation on investments		(6,629,081)
Net increase (decrease) in net assets resulting from operations		25,897,715
Shareholder transactions		
Subscriptions (representing 12,571.736 shares)		19,847,500
Repurchases (representing 32,985.346 shares)		(52,185,827)
Net increase (decrease) in net assets from shareholder transactions		(32,338,327)
Total increase (decrease) in net assets		(6,440,612)
Net assets, beginning of year (representing 379,363.406 shares)		581,361,145
Net assets, end of year (representing 358,949.796 shares)	$	574,920,533
For the Year Ended December 31, 2016		
Net increase (decrease) in net assets resulting from operations:		
Net investment income (loss)	$	(13,465,839)
Net realized gain (loss) from investments		25,008,425
Net change in unrealized appreciation (depreciation) on investments		(17,251,769)
Net increase (decrease) in net assets resulting from operations		(5,709,183)
Shareholder transactions		
Subscriptions (representing 10,629.486 shares)		16,591,698
Repurchases (representing 53,943.794 shares)		(84,441,408)
Net increase (decrease) in net assets from shareholder transactions		(67,849,710)
Total increase (decrease) in net assets		(73,558,893)
Net assets, beginning of year (representing 358,949.796 shares)		574,920,533
Net assets, end of year (representing 315,635.488 shares)	$	501,361,640

The accompanying notes are an integral part of these financial statements and should be used in conjunction herewith.

Alternative Investment Partners Absolute Return Fund
Statement of Cash Flows
For the Year Ended December 31, 2016

Cash flows from operating activities	
Net increase (decrease) in net assets resulting from operations	$ (5,709,183)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:	
Net realized (gain) loss from investments in investment funds	(25,008,425)
Net change in unrealized (appreciation) depreciation on investments in investment funds	17,251,769
Purchase of investments in investment funds	(134,822,471)
Proceeds from sale of investments in investment funds	187,677,612
Net (purchase) sales/maturities of short-term investments	(3,688,851)
(Increase) decrease in prepaid investments in investment funds	2,625,000
(Increase) decrease in receivable for investments sold	17,668,244
(Increase) decrease in other assets	(5,390)
Increase (decrease) in management fee payable	366,930
Increase (decrease) in shareholder servicing fee payable	274,784
Increase (decrease) in withholding tax payable	(54,405)
Increase (decrease) in transfer agent fee payable	15,255
Increase (decrease) in accrued expenses and other liabilities	312,343
Net cash provided by (used in) operating activities	56,903,212
Cash flows from financing activities	
Proceeds from issuance of note payable*	18,819,602
Repayments of note payable	(38,000,000)
Subscriptions	14,290,913
Repurchases	(56,520,565)
Net cash provided by (used in) financing activities	(61,410,050)
Net change in cash	(4,506,838)
Cash at beginning of year	6,587,145
Cash at end of year	$ 2,080,307
Supplemental disclosure of cash flow information:	
Conversion to shareholder subscriptions in 2016 of subscriptions received in advance during 2015	$ 2,300,785

* *Includes $2,821,357 of accrued interest expense that was rolled over into the note payable principal balance. See discussion in Note 8 to the financial statements.*

The accompanying notes are an integral part of these financial statements and should be used in conjunction herewith.

Alternative Investment Partners Absolute Return Fund
Schedule of Investments
December 31, 2016

Description	First Acquisition Date		Cost		Fair Value	Percent of Investment Fund Held*	Percent of Net Assets	Next Available Redemption Date**	Liquidity***
Investment Funds									
Commodity Trading Advisors - Managed Futures									
Teza Fund V LP	2/1/2016	$	20,650,945	$	15,951,378	24.65 %	3.18 %	1/31/2017	Monthly
Two Sigma Absolute Return Macro Enhanced Fund, LP	7/1/2014		12,482,727		16,760,358	1.75	3.34	1/31/2017	Monthly
Total Commodity Trading Advisors - Managed Futures			33,133,672		32,711,736		6.52		
Distressed									
Cerberus Partners, L.P.	11/1/2009		5,561,732		13,537,813	4.16	2.70	(a)	(a)
Cerberus SPV LLC	11/1/2009		3,406,791		8,965,529	1.89	1.79	(a)	(a)
Trend Capital Gaucho Fund LP	11/1/2016		9,000,000		8,750,940	17.65	1.74	10/31/2017	Annually
Total Distressed			17,968,523		31,254,282		6.23		
Equity Long/Short - High Hedge									
Citadel Tactical Trading LLC	1/1/2008		5,652,085		34,588,009	3.63	6.90	3/31/2017	Quarterly
Magnetar Equity Opportunities Fund LLC	2/1/2011		759,917		2,457,618	2.44	0.49	1/31/2017	Monthly
Total Equity Long/Short - High Hedge			6,412,002		37,045,627		7.39		
Equity Long/Short - Opportunistic									
Anchor Bolt Fund, LP	2/1/2014		12,833,150		15,752,193	1.84	3.14	3/31/2017	Quarterly
Lansdowne Developed Markets Fund, L.P.	5/1/2009		8,151,218		13,909,281	0.88	2.77	3/31/2017	Monthly
Pelham Long/Short Fund LP	7/1/2013		11,000,000		13,763,339	1.76	2.75	3/31/2017	Monthly
Pelham Long/Short Small Cap Fund LP	7/1/2015		12,625,000		14,403,393	9.00	2.87	3/31/2017	Quarterly
Pleiad Asia Onshore Feeder Fund	2/1/2016		13,000,000		12,386,424	3.67	2.47	3/31/2017	Quarterly
Quentec Partners, LP	10/1/2012		7,949,594		11,616,570	8.46	2.32	3/31/2017	Quarterly
TPG-Axon Partners, LP	10/1/2007		6,287,715		2,825,992	3.39	0.56	(a)	(a)
Turiya Fund LP	10/1/2015		17,400,000		16,664,034	2.48	3.32	3/31/2017	Quarterly
Valinor Capital Partners, L.P.	7/1/2011		10,561,128		12,900,956	1.64	2.58	3/31/2017	Quarterly
Total Equity Long/Short - Opportunistic			99,807,805		114,222,182		22.78		

The accompanying notes are an integral part of these financial statements and should be used in conjunction herewith.

Alternative Investment Partners Absolute Return Fund
Schedule of Investments (continued)
December 31, 2016

Description	First Acquisition Date	Cost	Fair Value	Percent of Investment Fund Held*	Percent of Net Assets	Next Available Redemption Date**	Liquidity***
Investment Funds (continued)							
Event Driven Credit							
Silver Point Capital Fund, L.P.	5/1/2007	$ 883,309	$ 54,787	0.00 %	0.01 %	(a)	(a)
Total Event Driven Credit		883,309	54,787		0.01		
Event Driven Equity							
Numina Capital Enhanced Fund, L.P.	8/1/2016	15,000,000	13,744,412	61.40	2.74	3/31/2017	Quarterly
Owl Creek Overseas Fund, Ltd.	2/1/2008	369,640	1,383,287	0.22	0.28	(a)	(a)
Sachem Head LP	4/1/2015	11,566,310	11,875,733	0.79	2.37	3/31/2017	Quarterly
Total Event Driven Equity		26,935,950	27,003,432		5.39		
Macro							
Andurand Commodities Fund LP	8/1/2016	12,500,000	14,436,666	6.38	2.88	3/31/2017	Monthly
Autonomy Global Macro Fund LP	6/1/2013	12,714,640	17,306,633	2.16	3.45	2/28/2017	Monthly
D.E. Shaw Oculus Fund, L.L.C.	11/1/2006	15,179,708	27,953,472	1.19	5.58	3/31/2017	Quarterly
Discovery Global Opportunity Partners, L.P.	1/1/2008	9,734,166	17,544,331	1.07	3.50	6/30/2017	Semi-Annually
Guard Macro US Feeder Fund	2/1/2016	12,000,000	11,774,858	2.32	2.35	1/31/2017	Monthly
Key Square Partners LP	3/1/2016	17,750,000	19,470,280	8.58	3.88	3/31/2017	Quarterly
Rokos Global Macro Fund LP	12/1/2015	9,425,000	11,032,999	1.56	2.20	3/31/2017	Monthly
Stone Milliner Macro Fund Delaware L.P.	6/1/2015	12,810,438	13,723,628	2.30	2.74	3/31/2017	Monthly
Total Macro		102,113,952	133,242,867		26.58		
Mortgage Arbitrage							
Cerberus CMBS Opportunities Fund, L.P.	10/1/2014	13,536,607	13,974,402	3.05	2.79	3/31/2017	Quarterly
Cerberus Global Residential Mortgage Opportunity Fund L.P.	2/1/2013	10,411,042	13,888,508	0.57	2.77	3/31/2017	Quarterly
Shelter Growth Opportunities Fund LP	2/1/2016	16,000,000	18,125,726	4.99	3.62	3/31/2017	Quarterly
Tilden Park Investment Fund LP	3/1/2012	6,774,721	13,511,927	0.80	2.70	3/31/2017	Quarterly
Total Mortgage Arbitrage		46,722,370	59,500,563		11.88		

The accompanying notes are an integral part of these financial statements and should be used in conjunction herewith.

Alternative Investment Partners Absolute Return Fund
Schedule of Investments (continued)
December 31, 2016

Description	First Acquisition Date	Cost	Fair Value	Percent of Investment Fund Held*	Percent of Net Assets	Next Available Redemption Date**	Liquidity***
Investment Funds (continued)							
Multi-Strategy							
Citadel Wellington LLC	8/1/2006	$ 10,170,402	$ 20,092,943	0.42 %	4.01 %	3/31/2017	Quarterly
D.E. Shaw Composite Fund, L.L.C.	1/1/2006	1,443,487	1,474,666	0.04	0.29	(a)	(a)
Magnetar Capital Fund, LP	1/1/2008	310,622	565,421	4.28	0.11	(a)	(a)
Magnetar Capital Fund II LP	1/1/2010	8,639,901	10,088,430	6.32	2.01	3/31/2017	Quarterly
OZ Asia Domestic Partners, L.P.	1/1/2006	24,990	2,468	0.00	0.00	(a)	(a)
OZ Europe Domestic Partners II, L.P.	4/1/2007	193,061	35,953	0.04	0.01	(a)	(a)
Perry Partners, L.P.	11/1/2006	81,540	130,045	0.02	0.02	(a)	(a)
QVT Onshore LP	3/1/2012	11,661,995	13,774,969	4.12	2.75	3/31/2017	Quarterly
QVT SLV Onshore Ltd.	3/1/2012	800,722	1,383,745	3.45	0.27	(a)	(a)
QVT Special Investment Onshore Fund, Ltd.	3/1/2012	422,497	598,956	3.22	0.12	(a)	(a)
Total Multi-Strategy		33,749,217	48,147,596		9.59		
Other Directional							
GKC Credit Opportunities, LP (b)	10/1/2014	5,240,068	5,875,000	3.57	1.17	9/30/2019	Daily
Pulaski FundingCo, LLC (b)	9/1/2016	2,234	2,305	6.73	0.00	(a)	(a)
Total Other Directional		5,242,302	5,877,305		1.17		
Private Placements							
QVT Roiv Hldgs Onshore Ltd.	1/1/2016	962,291	1,328,181	3.76	0.26	(a)	(a)
Total Private Placements		962,291	1,328,181		0.26		
Relative Value Credit							
KLS Credit Opportunities Fund LP (b)	5/1/2013	7,500,000	11,161,310	8.89	2.23	4/30/2017	Semi-Annually
Total Relative Value Credit		7,500,000	11,161,310		2.23		
Statistical Arbitrage							
D.E. Shaw Valence Fund, L.L.C.	1/1/2015	9,025,000	11,298,127	1.13	2.25	3/31/2017	Quarterly
GSA International Fund LP	11/1/2012	5,611,589	7,712,880	5.45	1.54	3/31/2017	Quarterly
GSA QMS Fund LP	6/1/2011	17,728,914	22,538,806	11.17	4.50	3/31/2017	Monthly
OxAm Quant Fund (US) LLC	2/1/2015	16,000,000	14,847,383	5.41	2.96	1/31/2017	Monthly
Systematica BlueMatrix L.P.	10/1/2012	7,142,962	9,195,079	4.63	1.83	3/31/2017	Quarterly
Two Sigma Spectrum U.S. Fund, LP	5/1/2011	15,822,020	25,695,254	1.06	5.13	3/31/2017	Quarterly
Total Statistical Arbitrage		71,330,485	91,287,529		18.21		
Total Investments in Investment Funds		452,761,878	592,837,397		118.24		

The accompanying notes are an integral part of these financial statements and should be used in conjunction herewith.

Alternative Investment Partners Absolute Return Fund
Schedule of Investments (continued)
December 31, 2016

Description	Cost	Fair Value	Percent of Net Assets
Short-Term Investments			
State Street Institutional Liquid Reserves Fund - Institutional Class 0.67%	$ 3,688,851	$ 3,688,851	0.74 %
Total Short-Term Investments	3,688,851	3,688,851	0.74
Total Investments in Investment Funds and Short-Term Investments	$ 456,450,729	596,526,248	118.98
Liabilities in excess of Other Assets		(95,164,608)	(18.98)
Total Net Assets		$ 501,361,640	100.00 %

Detailed information about all of the Investment Funds' portfolios is not available. Investment Funds are non-income producing.

* May represent percentage ownership of a feeder Investment Fund, which in turn invests in a master Investment Fund. May not reflect year-ended redemptions at Investment Funds.

** Investments in Investment Funds may be composed of multiple tranches. The Next Available Redemption Date relates to the earliest date after December 31, 2016 that redemption from a tranche is available. Other tranches may have an available redemption date that is after the Next Available Redemption Date. Redemptions from Investment Funds may be subject to fees.

*** Available frequency of redemptions after initial lock-up period, if any. Different tranches may have different liquidity terms.

(a) A portion or all of the Fund's interests in the Investment Fund have restricted liquidity. In addition to any redemption proceeds that may have already been received, the Fund will continue to receive proceeds periodically as the Investment Fund is able to liquidate underlying investments.

(b) The Investment Fund contains capital commitments. The general partner of the Investment Fund may call or distribute capital on a periodic basis.

The following table summarizes the initial commitment and unfunded amounts of the Investment Funds as of December 31, 2016, aggregated by investment strategy:

Investment Funds	Commitments	Unfunded
Other Directional		
GKC Credit Opportunities, LP	$ 14,400,000	$ 9,159,932
Pulaski FundingCo, LLC	2,719,000	-
Total Other Directional	$ 17,119,000	$ 9,159,932
Relative Value Credit		
KLS Credit Opportunisties Fund LP	$ 25,000,000	$ 17,500,000
Total Relative Value Credit	$ 25,000,000	$ 17,500,000

The accompanying notes are an integral part of these financial statements and should be used in conjunction herewith.

Alternative Investment Partners Absolute Return Fund
Schedule of Investments (continued)
December 31, 2016

Strategy Allocation	Percent of Net Assets
Macro	26.58 %
Equity Long/Short - Opportunistic	22.78
Statistical Arbitrage	18.21
Mortgage Arbitrage	11.88
Multi-Strategy	9.59
Equity Long/Short - High Hedge	7.39
Commodity Trading Advisors - Managed Futures	6.52
Distressed	6.23
Event Driven Equity	5.39
Relative Value Credit	2.23
Other Directional	1.17
Short-Term Investments	0.74
Private Placements	0.26
Event Driven Credit	0.01
Total Investments in Investment Funds and Short-Term Investments	118.98 %

The accompanying notes are an integral part of these financial statements and should be used in conjunction herewith.

Alternative Investment Partners Absolute Return Fund
Notes to Financial Statements
December 31, 2016

1. Organization

Alternative Investment Partners Absolute Return Fund (the "Fund") was organized under the laws of the State of Delaware as a statutory trust on May 12, 2005. The Fund commenced operations on January 1, 2006 and operates pursuant to an Agreement and Declaration of Trust (the "Trust Deed"). The Fund is registered under the U.S. Investment Company Act of 1940, as amended (the "1940 Act"), as a closed-end, non-diversified management investment company. The Fund's investment objective is to seek capital appreciation principally through investing in investment funds ("Investment Funds") managed by third party investment managers who employ a variety of "absolute return" investment strategies in pursuit of attractive risk-adjusted returns consistent with the preservation of capital. "Absolute return" refers to a broad class of investment strategies that are managed without reference to the performance of equity, debt and other markets. "Absolute return" investment strategies allow investment managers the flexibility to use leveraged or short-sale positions to take advantage of perceived inefficiencies across the global capital markets. The Fund may seek to gain investment exposure to certain Investment Funds or to adjust market or risk exposure by entering into derivative transactions, such as total return swaps, options and futures.

Morgan Stanley Alternative Investment Partners LP serves as the Fund's "Special Shareholder." The Special Shareholder shall make such contributions to the capital of the Fund from time to time in an amount sufficient for it to serve as "tax matters partner" for the Fund, which is treated as a partnership for U.S. federal income tax purposes. Morgan Stanley AIP GP LP serves as the Fund's investment adviser (the "Investment Adviser") and Morgan Stanley Investment Management Limited serves as the Fund's sub-adviser (the "Sub-Adviser") (collectively with the Investment Adviser, the "Adviser"). The Adviser is responsible for providing day-to-day investment management services to the Fund, subject to the supervision of the Fund's Board of Trustees (the "Board"). Each of the Investment Adviser and Sub-Adviser is an affiliate of Morgan Stanley and is registered as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act"). The Fund's term is perpetual unless the Fund is otherwise terminated under the terms of the Trust Deed or unless and until required by law.

The Fund is a "Master" fund in a "Master-Feeder" structure whereby the feeder fund invests substantially all of its assets in the Fund. As of December 31, 2016, Alternative Investment Partners Absolute Return Fund STS, an indirect feeder fund to the Fund, represented 61.29% of the Fund's net assets.

The Board has overall responsibility for monitoring and overseeing the Fund's investment program and its management and operations. A majority of the members of the Board are not "interested persons" (as defined by the 1940 Act) of the Fund, the Investment Adviser or the Sub-Adviser.

The Fund offers on a continuous basis through Morgan Stanley Distribution, Inc. (the "Distributor"), an affiliate of Morgan Stanley, 1,500,000 shares of beneficial interest ("Shares"). The initial closing date ("Initial Closing Date") for public offering of Shares was July 1, 2006. Shares were offered until the Initial Closing Date at an initial offering price of $1,000 per Share, plus any applicable sales load, and have been continuously offered thereafter for purchase as of the first day of each calendar month at the Fund's then current net asset value per Share, plus any applicable sales load. The Distributor may

Alternative Investment Partners Absolute Return Fund
Notes to Financial Statements (continued)

1. Organization (continued)

enter into selected dealer agreements with various brokers and dealers ("Selling Agents"), some of which are affiliates of the Fund, that have agreed to participate in the distribution of the Fund's Shares. Shares may also be purchased through any registered investment adviser (a "RIA") that has entered into an arrangement with the Distributor for such RIA to recommend Shares to its clients in conjunction with a "wrap" fee, asset allocation or other management asset program by such RIA.

Shares are sold only to investors ("Shareholders") that represent that they are "accredited investors" within the meaning of Rule 501(a) of Regulation D promulgated under the U.S. Securities Act of 1933, as amended. The minimum initial investment in the Fund by any Shareholder is $50,000. The minimum additional investment in the Fund by any Shareholder is $25,000. The minimum initial and additional investments may be reduced by the Fund with respect to certain Shareholders. Shareholders may only purchase their Shares through the Distributor, a Selling Agent or a RIA.

The Fund may from time to time offer to repurchase Shares (or portions of them) at net asset value pursuant to written tenders by Shareholders, and each such repurchase offer will generally apply to up to 15% of the net assets of the Fund. Repurchases are made at such times, in such amounts and on such terms as may be determined by the Board, in its sole discretion. In determining whether the Fund should offer to repurchase Shares (or portions of them) from Shareholders, the Board will consider the recommendations of the Adviser as to the timing of such an offer, as well as a variety of operational, business and economic factors. The Adviser expects that, generally, it will recommend to the Board that the Fund offer to repurchase Shares (or portions of them) from Shareholders quarterly, on each March 31, June 30, September 30 and December 31. In general, the Fund will initially pay at least 90% of the estimated value of the repurchased Shares to Shareholders as of the later of: (1) a period of within 30 days after the value of the Shares to be repurchased is determined, or (2) if the Fund has requested withdrawals of its capital from any Investment Funds in order to fund the repurchase of Shares, within ten business days after the Fund has received at least 90% of the aggregate amount withdrawn by the Fund from such Investment Funds. The remaining amount (the "Holdback Amount") will be paid promptly after completion of the annual audit of the Fund and preparation of the Fund's audited financial statements. As of December 31, 2016, the Holdback Amount was $3,169,222, which includes any Holdback Amount for repurchases as of December 31, 2016, and is included in payable for share repurchases in the Statement of Assets and Liabilities.

2. Significant Accounting Policies

The following significant accounting policies are in conformity with U.S. generally accepted accounting principles ("US GAAP"). Such policies are consistently followed by the Fund in preparation of its financial statements. Management has determined that the Fund is an investment company in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946, "Financial Services – Investment Companies," for the purpose of financial reporting. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases or decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

Alternative Investment Partners Absolute Return Fund
Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Portfolio Valuation

The net asset value of the Fund is determined as of the close of business at the end of any fiscal period, generally monthly, in accordance with the valuation principles set forth below or as may be determined from time to time pursuant to policies established by the Board.

As of December 31, 2016, 99.38% of the Fund's portfolio was comprised of investments in Investment Funds. The remainder of the portfolio was invested in the short-term investments.

The Board has approved procedures pursuant to which the Fund values its investments in Investment Funds at fair value, which ordinarily will be the amount equal to the Fund's pro rata interest in the net assets of each such Investment Fund ("NAV"), as such value is supplied by, or on behalf of, the Investment Fund's investment manager from time to time, usually monthly. Values received from, or on behalf of, the Investment Funds' respective investment managers are typically estimates only, subject to subsequent revision by such investment managers. Such values are generally net of management fees and performance incentive fees or allocations payable to the Investment Funds' managers or general partners pursuant to the Investment Funds' operating agreements. The Investment Funds value their underlying investments in accordance with policies established by each Investment Fund, as described in each of their financial statements or offering memoranda. The Fund's investments in Investment Funds are subject to the terms and conditions of the respective operating agreements and offering memoranda, as appropriate.

Some of the Investment Funds may hold a portion of their assets in "side pockets," which are sub-funds within the Investment Funds that have restricted liquidity, potentially extending over a much longer period than the typical liquidity an investment in the Investment Funds may provide. Should the Fund seek to liquidate its investment in an Investment Fund that maintains these side pockets, the Fund might not be able to fully liquidate its investment without delay, which could be considerable. In such cases, until the Fund is permitted to fully liquidate its interest in the Investment Fund, the fair value of its investment could fluctuate based on adjustments to the value of the side pocket as reported by the Investment Fund's investment manager.

The Adviser has designed ongoing due diligence processes with respect to Investment Funds and their investment managers, which assist the Adviser in assessing the quality of information provided by, or on behalf of, each Investment Fund and in determining whether such information continues to be reliable or whether further investigation is necessary. Such investigation, as applicable, may or may not require the Adviser to forego its normal reliance on the value supplied by, or on behalf of, such Investment Fund and to determine independently the fair value of the Fund's interest in such Investment Fund, consistent with the Fund's fair valuation procedures.

Where no value is readily available from an Investment Fund or where a value supplied by an Investment Fund is deemed by the Adviser not to be indicative of its fair value, the Adviser will determine the fair value of the Investment Fund. In order to determine the fair value of these Investment Funds, the Adviser has established the Fund of Hedge Funds Valuation Committee (the "Valuation Committee"). The Valuation Committee is responsible for determining and implementing the Fund's valuation policies and procedures, which have been adopted by the Board and are subject to Board supervision. The Valuation

Alternative Investment Partners Absolute Return Fund
Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Portfolio Valuation (continued)

Committee consists of voting members from Morgan Stanley's accounting, financial reporting and risk management groups, and non-voting members from portfolio management, legal and compliance groups. A member of the portfolio management team may attend each Valuation Committee meeting to provide knowledge, insight, and recommendations on valuation issues. The portfolio management team will recommend to the Valuation Committee a fair value for an investment using valuation techniques such as a market approach or income approach. In applying these valuation techniques, the portfolio management team uses their knowledge of the Investment Fund, industry expertise, information obtained through communication with the Investment Fund's investment manager, and available relevant information as it considers material. After consideration of the portfolio management team's recommendation, the Valuation Committee will determine, in good faith, the fair value of the Investment Fund. The Valuation Committee shall meet at least annually to analyze changes in fair value measurements. Because of the inherent uncertainty of valuation, the fair values of the Fund's investments may differ significantly from the values that would have been used had a ready market for these Investment Funds held by the Fund been available.

Short-Term Investments

Short-term investments are invested in a money market fund. Investments in money market funds are valued at net asset value. Money market funds are considered to be Level 1 investments as described in Note 4.

Income Recognition and Expenses

The Fund recognizes income and expenses on an accrual basis. Income, expenses and realized and unrealized gains and losses are recorded monthly. The changes in Investment Funds' fair values are included in net change in unrealized appreciation/depreciation on investments in Investment Funds in the Statement of Operations. Realized gain (loss) from investments in Investment Funds is calculated using specific identification.

Income and Withholding Taxes

No provision for federal, state, or local income taxes is required in the financial statements. In accordance with the U.S. Internal Revenue Code of 1986, as amended, each of the Shareholders and Special Shareholder is to include its respective share of the Fund's realized profits or losses in its individual tax returns. The Fund files tax returns with the U.S. Internal Revenue Service and various states. The Fund expects to be treated as a partnership for U.S. federal income tax purposes.

Alternative Investment Partners Absolute Return Fund
Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Income and Withholding Taxes (continued)

The Fund is required to withhold up to 30% U.S. tax from U.S. source dividends and 35% U.S. tax from effectively connected income allocable to its non-U.S. Shareholders and to remit those amounts to the U.S. Internal Revenue Service on behalf of non-U.S. Shareholders. The rate of withholding is generally the rate at which the particular non-U.S. Shareholder is subject to U.S. federal income tax. The non-U.S. Shareholders are obligated to indemnify the Fund for any taxes that the Fund is required to withhold as well as any interest or penalties. Withholding taxes result in a repurchase of Shares from the Fund for any non-U.S. Shareholders who incur the withholding.

For the year ended December 31, 2016, the Fund recorded an estimated tax withholding amount of $1,104,702 which is included in repurchases in the Statements of Changes in Net Assets. The Special Shareholder made no contributions to the capital of the Fund for U.S. Federal income tax purposes during this period.

The Fund has concluded there are no significant uncertain tax positions that would require recognition in the financial statements as of December 31, 2016. If applicable, the Fund recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in other expenses in the Statement of Operations. Generally, open tax years under potential examination vary by jurisdiction, but at least each of the tax years in the four-year period ended December 31, 2016, remains subject to examination by major taxing authorities.

3. Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Investment Funds in which the Fund invests may trade various financial instruments and enter into various investment activities with off-balance sheet risk. These include, but are not limited to, short selling activities, written option contracts, and swaps. The Fund’s risk of loss in each Investment Fund is limited to the value of the Fund’s interest in each Investment Fund as reported by the Fund.

4. Fair Value of Financial Instruments

The fair value of the Fund’s assets and liabilities that qualify as financial instruments approximates the carrying amounts presented in the Statement of Assets and Liabilities. Fair value is defined as the price that the Fund would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. The Fund uses a three-tier hierarchy to distinguish between (a) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (b) inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the fair value of the

Alternative Investment Partners Absolute Return Fund
Notes to Financial Statements (continued)

4. Fair Value of Financial Instruments (continued)

Fund's investments. The inputs are summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments), or short-term investments that are valued at amortized cost
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

The units of account that are valued by the Fund are its interests in the Investment Funds or other financial instruments and not the underlying holdings of such Investment Funds or other financial instruments. Thus, the inputs used by the Fund to value its investments in each of the Investment Funds or other financial instruments may differ from the inputs used to value the underlying holdings of such Investment Funds or other financial instruments.

The Fund's policy is to recognize transfers between Levels 1, 2, or 3 and transfers due to strategy reclassification, if any, as if they occurred as of the beginning of the reporting period. For the year ended December 31, 2016, the Fund did not have any transfers between Levels 1, 2, or 3.

As of December 31, 2016, all of the investments in Investment Funds are fair valued using the NAV as practical expedient and are therefore excluded from the fair value hierarchy.

Alternative Investment Partners Absolute Return Fund
Notes to Financial Statements (continued)

5. Investments in Investment Funds

The following table summarizes the fair value and liquidity terms of the Investment Funds as of December 31, 2016, aggregated by investment strategy:

Investment Funds		Fair Value	Redemption Frequency (if applicable)	Redemption Notice Period (if applicable)
Commodity Trading Advisors				
- Managed Futures [(a)]	$	32,711,736	Monthly	15-30 days
Distressed [(b)]		31,254,282	Annually	180 days
Equity Long/Short - High Hedge [(c)]		37,045,627	Monthly to Quarterly	30-45 days
Equity Long/Short - Opportunistic [(d)]		114,222,182	Monthly to Quarterly	45-180 days
Event Driven Credit [(e)]		54,787	Not Applicable	Not Applicable
Event Driven Equity [(f)]		27,003,432	Quarterly	60-65 days
Macro [(g)]		133,242,867	Monthly to Semi-annually	30-90 days
Mortgage Arbitrage [(h)]		59,500,563	Quarterly	90 days
Multi-Strategy [(i)]		48,147,596	Quarterly	45-90 days
Other Directional [(j)]		5,877,305	Daily	30 days
Private Placement [(k)]		1,328,181	Not Applicable	Not Applicable
Relative Value Credit [(l)]		11,161,310	Semi-annually	90 days
Statistical Arbitrage [(m)]		91,287,529	Monthly to Quarterly	30-75 days
Total Investment Funds	**$**	**592,837,397**		

(a) *Investment Funds in this strategy invest in a variety of futures contracts, including currencies, interest rates, stocks, stock market indexes, derivatives, and commodities. These Investment Funds build quantitative models to price futures and then take long and short positions in the futures.*

(b) *Investment Funds in this strategy 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. Investment Fund tranches representing 4.49% of the Fund's net assets have restricted liquidity. The Fund estimates the remaining restriction period for such Investment Fund tranches to be 2 to 4 years.*

(c) *Investment Funds in this strategy seek to profit by exploiting pricing inefficiencies between related equity securities, neutralizing exposure to market risk by combining long and short positions.*

(d) *Investment Funds in this strategy consist of a core holding of long equities hedged at all times with short sales of stocks or stock index options. Some of the Investment Funds' respective investment managers maintain a substantial portion of assets within a hedged structure and commonly employ leverage. Investment Fund tranches representing 0.27% of the Fund's net assets has restricted liquidity. The Fund estimates the remaining restriction period for such Investment Fund tranches to be 6 years.*

(e) *An Investment Fund in this strategy invests in debt securities created by significant transactional events, such as spin-offs, mergers and acquisitions, bankruptcy reorganizations and recapitalizations. Investment Fund tranches representing 0.01% of the Fund's net assets have restricted liquidity. The Fund estimates the remaining restriction period for such Investment Fund tranches to be 3 years.*

(f) *Investment Funds in this strategy invest 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 be underpriced relative to their intrinsic or fundamental value or which are expected to appreciate in value if circumstances change or an anticipated event occurs. Investment Fund tranches representing 0.28% of the Fund's net assets have restricted liquidity. The Fund estimates the remaining restriction period for such Investment Fund tranches to be 2 years.*

Alternative Investment Partners Absolute Return Fund
Notes to Financial Statements (continued)

5. Investments in Investment Funds (continued)

(g) *Investment Funds in this strategy invest by making leveraged bets on anticipated price movements of stock markets, interest rates, foreign exchange and physical commodities.*

(h) *An Investment Fund in this strategy 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.*

(i) *Investment Funds in this strategy tactically allocate capital to various hedge fund strategies based on their perceived risk and return profiles. Investment Fund tranches representing 0.83% of the Fund's net assets have restricted liquidity. The Fund estimates the remaining restriction period for such Investment Fund tranches to range from 3 to 5 years.*

(j) *Portfolio Investments in this strategy invest in a broad group of directional strategies, often with little hedging. Investment Fund tranches representing less than 0.005% of the Fund's net assets have restricted liquidity. The remaining restriction period for such investments is unknown.*

(k) *Investment Funds in this strategy invest primarily in private (non-public) securities with limited liquidity. Investment Fund tranches representing 0.26% of the Fund's net assets have restricted liquidity. The remaining restriction period for such Investment Fund tranches is unknown.*

(l) *An Investment Fund in this strategy invests in, and may sell short, fixed income securities focused on corporate debt, emerging markets sovereign debt and structured credit products.*

(m) *Investment Funds in this strategy profit from temporary pricing discrepancies between related securities. This irregularity offers an opportunity to go long the cheaper security and to short the more expensive one in an attempt to profit as the prices of the two revert to their norm, or mean.*

As of December 31, 2016, 6.43% of the Fund's net assets were invested in Investment Funds with restricted liquidity or with the next available redemption date extending beyond one year from December 31, 2016.

For the year ended December 31, 2016, aggregate purchases and proceeds from sales of investments in Investment Funds were $134,822,471 and $187,677,612, respectively.

The cost of investments for federal income tax purposes is adjusted for items of taxable income or loss allocated to the Fund from the Investment Funds. The allocated taxable income or loss is reported to the Fund by the Investment Funds on Schedules K-1. Such tax adjustments for the year ended December 31, 2016 will be made once the Fund has received all 2015 Schedules K-1 from the Investment Funds.

6. Investment Receivables and Prepaids

As of December 31, 2016, $53,761,706 was due to the Fund from Investment Funds. The receivable amount represents the fair value of certain Investment Fund tranches, net of management fees and incentive fees/allocations, that were redeemed by the Fund at year-end or holdback amounts that will be received from certain Investment Funds. Substantially all of the receivable balance was collected subsequent to the balance sheet date.

Prepaid investments in Investment Funds represent amounts transferred to Investment Funds prior to year-end relating to investments to be made effective January 1, 2017, pursuant to each Investment Fund's operating agreements.

Alternative Investment Partners Absolute Return Fund
Notes to Financial Statements (continued)

7. Management Fee, Related Party Transactions and Other

The Fund bears all expenses related to its investment program, including, but not limited to, expenses borne indirectly through the Fund's investments in the underlying Investment Funds.

In consideration of the advisory and other services provided by the Investment Adviser to the Fund, the Fund pays the Investment Adviser a monthly management fee of 0.083% (1.00% on an annualized basis) of the Fund's month end net asset value. The management fee is an expense paid out of the Fund's assets and is computed based on the value of the net assets of the Fund as of the close of business on the last business day of each month, before adjustments for any repurchases effective on that day. The management fee is in addition to the asset-based fees and incentive fees or allocations charged by the underlying Investment Funds and indirectly borne by Shareholders in the Fund. The Investment Adviser pays the Sub-Adviser a portion of the net advisory fees the Investment Adviser receives from the Fund on a monthly basis. For the year ended December 31, 2016, the Fund incurred management fees of $5,480,476, of which $1,341,579 was payable to the Investment Adviser at December 31, 2016.

The Distributor and Selling Agents may charge Shareholders a sales load of up to 3% of the Shareholder's purchase. The Distributor or a Selling Agent may, in its discretion, waive the sales load for certain investors. In addition, purchasers of Shares in conjunction with certain "wrap" fee, asset allocation or other managed asset programs sponsored by a RIA, including an affiliate of the Adviser, or Morgan Stanley and its affiliates (including the Adviser) and the directors, partners, principals, officers and employees of any such RIA or any of the Adviser and its affiliates may not be charged a sales load.

The Fund pays the Distributor, and the Distributor pays each financial institution, broker-dealer and other industry professional (collectively, "Service Agents") that enters into a Distribution and Shareholder Servicing Agreement with the Distributor, a monthly shareholder servicing fee of up to 0.0625% (0.75% on an annualized basis) of the net asset value of the outstanding Shares attributable to the clients of the Service Agent who are invested in the Fund through the Service Agent. In exchange for this fee, the Service Agent provides distribution, marketing and/or sales support services, including making the Fund available as an investment option to the Service Agent's clients, offering the Fund as an option on any distribution "platform" the Service Agent administers, making information about the Fund available to clients, including the Fund's Prospectus, statement of additional information and sales literature, engaging in education or marketing activities about the Fund and its characteristics and retaining or utilizing the services of sales professionals, consultants and other personnel to assist in marketing shares of the Fund to clients. For the year ended December 31, 2016, the Fund incurred shareholder servicing fees of $4,103,102, of which $1,004,419 was payable to the Distributor at December 31, 2016.

State Street Bank and Trust Company ("State Street") provides accounting and administrative services to the Fund. Under an administrative services agreement, State Street is paid an administrative fee, computed and payable monthly at an annual rate ranging from 0.045% to 0.075%, based on the aggregate monthly net assets of certain Morgan Stanley products, including the Fund, for which State Street serves as the administrator.

Alternative Investment Partners Absolute Return Fund
Notes to Financial Statements (continued)

7. Management Fee, Related Party Transactions and Other (continued)

State Street also serves as the Fund's custodian. Under a custody services agreement, State Street is paid a custody fee monthly at an annual rate of 0.020%, based on (i) the aggregate monthly net assets of certain Morgan Stanley products, including the Fund, for which State Street serves as the custodian, and (ii) investment purchases and sales activity related to the Fund.

The Fund is charged directly for certain reasonable out-of-pocket expenses related to the accounting, administrative and custodial services provided by State Street to the Fund.

The Fund has a deferred compensation plan (the "DC Plan") that allows each member of the Board that is not an affiliate of Morgan Stanley to defer payment of all, or a portion, of the fees he or she receives for serving on the Board throughout the year. Each eligible member of the Board generally may elect to have the deferred amounts invested in the DC Plan in order to earn a return equal to the total return on one or more of the Morgan Stanley products that are offered as investment options under the DC Plan. Investments in the DC Plan, unrealized appreciation/depreciation on such investments and distributions received from these investments are recorded with an offsetting increase/decrease in the deferred compensation obligation and do not affect the net asset value of the Fund. At December 31, 2016, the Fund's proportionate share of assets attributable to the DC Plan was $27,520, which is included in the Statement of Assets and Liabilities under other assets and accrued expenses and other liabilities.

UMB Fund Services, Inc. serves as the Funds transfer agent. Transfer agent fees are payable monthly based on an annual Fund base fee, annual per Shareholder account charges, and out-of-pocket expenses incurred by the transfer agent on the Fund's behalf.

8. Note Payable

Prior to December 21, 2009, the Fund entered into a note payable agreement (the "Note") with Credit Suisse International. Effective December 29, 2016, Credit Suisse International has assigned its obligations with respect to the Note to a different affiliate, Credit Suisse AG, Cayman Islands Branch. The maximum availability under the Note is $140,000,000. The interest rate on the borrowings is 3-month USD LIBOR plus 1.625% per annum. The Fund is charged a minimum interest rate of 1.625% per annum on $75,000,000, less any drawdowns. The Fund has the option to reduce the minimum borrowing at any time. Under the terms of the Note, borrowings are repayable at any time by the maturity date, October 30, 2018. On the 15th day of each month, any unpaid accrued interest expense shall automatically be rolled over into the principal amount of the borrowings. At December 31, 2016, $109,245,769 was outstanding against the Note. For the year ended December 31, 2016, the Fund incurred interest expense of $2,821,357 in connection with the Note. Borrowings are secured by investments in Investment Funds. Detailed below is summary information concerning the borrowings:

# of Days Outstanding	Average Daily Balance	Annualized Weighted Average Rate
366	$118,738,934	2.38%

Alternative Investment Partners Absolute Return Fund
Notes to Financial Statements (continued)

9. Contractual Obligations

The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

10. Financial Highlights

The following represents per Share data, ratios to average net assets and other financial highlights information for Shareholders.

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012
For a Share outstanding throughout the year:					
Net asset value, beginning of year	$ 1,601.67	$ 1,532.47	$ 1,406.39	$ 1,267.43	$ 1,137.87
Net investment income (loss) [(a)]	(38.37)	(37.42)	(33.91)	(31.45)	(27.11)
Net realized and unrealized gain (loss) from investments	25.12	106.62	159.99	170.41	156.67
Net increase (decrease) resulting from operations	(13.25)	69.20	126.08	138.96	129.56
Net asset value, end of year	$ 1,588.42	$ 1,601.67	$ 1,532.47	$ 1,406.39	$ 1,267.43
Total return [(b)]	(0.83%)	4.52%	8.96%	10.96%	11.39%
Ratio of total expenses [(c)]	2.47%	2.37%	2.32%	2.36%	2.26%
Ratio of net investment income (loss) [(d)]	(2.46%)	(2.37%)	(2.32%)	(2.36%)	(2.25%)
Portfolio turnover	21%	20%	17%	24%	11%
Net assets, end of year (000s)	$ 501,362	$ 574,921	$ 581,361	$ 597,061	$ 601,470

(a) Calculated based on the average shares outstanding methodology.
(b) Total return assumes a subscription of a Share in the Fund at the beginning of the year indicated and a repurchase of the Share on the last day of the year, and does not reflect the impact of the sales load, if any, incurred when subscribing to the Fund.
(c) Ratio does not reflect the Fund's proportionate share of the expenses of the Investment Funds.
(d) Ratio does not reflect the Fund's proportionate share of the income and expenses of the Investment Funds.

The above ratios and total returns have been calculated for the Shareholders taken as a whole. An individual Shareholder's return and ratios may vary from these returns and ratios due to the timing of Share transactions and withholding tax allocation, as applicable.

11. Subsequent Events

Unless otherwise stated throughout the Notes to Financial Statements, the Fund noted no subsequent events that require disclosure in or adjustment to the financial statements.

Alternative Investment Partners Absolute Return Fund

Proxy Voting Policies and Procedures and Proxy Voting Record (Unaudited)

A copy of (1) the Fund's policies and procedures with respect to the voting of proxies relating to the Investment Funds; and (2) how the Fund voted proxies relating to Investment Funds during the most recent 12-month period ended June 30 is available without charge, upon request, by calling the Fund at 1-888-322-4675. This information is also available on the Securities and Exchange Commission's website at http://www.sec.gov.

Quarterly Portfolio Schedule (Unaudited)

The Fund also files a complete schedule of portfolio holdings with the Securities and Exchange Commission for the Fund's first and third fiscal quarters on Form N-Q. The Fund's Forms N-Q are available on the Securities and Exchange Commission's website at http://www.sec.gov. The Fund's Forms N-Q may be reviewed and copied at the Securities and Exchange Commission's Public Reference Room in Washington, D.C. and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. Once filed, the most recent Form N-Q will be available without charge, upon request, by calling the Fund at 1-888-322-4675.

Alternative Investment Partners Absolute Return Fund
An Important Notice Concerning Our U.S. Privacy Policy (Unaudited)

This privacy notice describes the U.S. privacy policy of Morgan Stanley Alternative Investment Partners ("us", "our", "we").

We are required by federal law to provide you with notice of our U.S. privacy policy ("Policy"). This Policy applies to both our current and former clients unless we state otherwise and is intended for individual clients who purchase products or receive services from us for personal, family or household purposes. This Policy is not applicable to partnerships, corporations, trusts or other non-individual clients or account holders, nor is this Policy applicable to individuals who are either beneficiaries of a trust for which we serve as trustee or participants in an employee benefit plan administered or advised by us.

This notice sets out our business practices to protect your privacy; how we collect and share personal information about you; and how you can limit our sharing or certain uses by others of this information. We may amend this Policy at any time, and will inform you of any changes to our Policy as required by law.

We Respect Your Privacy

We appreciate that you have provided us with your personal financial information and understand your concerns about your information. We strive to safeguard the information our clients entrust to us. Protecting the confidentiality and security of client information is an important part of how we conduct our business.

This notice describes what personal information we collect about you, how we collect it, when we may share it with others, and how certain others may use it. It discusses the steps you may take to limit our sharing of certain information about you with our affiliated companies, including, but not limited to, our affiliated banking businesses, brokerage firms and credit service affiliates. It also discloses how you may limit our affiliates' use of shared information for marketing purposes.

Throughout this Policy, we refer to the nonpublic information that personally identifies you as "personal information." We also use the term "affiliated company" in this notice. An affiliated company is a company in our family of companies and includes companies with the Morgan Stanley name. These affiliated companies are financial institutions such as broker-dealers, banks, investment advisers and credit card issuers. We refer to any company that is not an affiliated company as a nonaffiliated third party. For purposes of Section 5 of this notice, and your ability to limit certain uses of personal information by our affiliates, this notice applies to the use of personal information by our affiliated companies.

An Important Notice Concerning Our U.S. Privacy Policy (Unaudited)
(continued)

1. What Personal Information Do We Collect From You?

We may collect the following types of information about you: (i) information provided by you, including information from applications and other forms we receive from you, (ii) information about your transactions with us or our affiliates, (iii) information about your transactions with nonaffiliated third parties, (iv) information from consumer reporting agencies, (v) information obtained from our websites, and (vi) information obtained from other sources. For example:

• We collect information such as your name, address, e-mail address, telephone/fax numbers, assets, income and investment objectives through applications and other forms you submit to us.

• We may obtain information about account balances, your use of account(s) and the types of products and services you prefer to receive from us through your dealings and transactions with us and other sources.

• We may obtain information about your creditworthiness and credit history from consumer reporting agencies.

• We may collect background information from and through third-party vendors to verify representations you have made and to comply with various regulatory requirements.

2. When Do We Disclose Personal Information We Collect About You?

We may disclose personal information we collect about you in each of the categories listed above to affiliated and nonaffiliated third parties.

a. Information We Disclose to Affiliated Companies. We may disclose personal information that we collect about you to our affiliated companies to manage your account(s) effectively, to service and process your transactions, and to let you know about products and services offered by us and affiliated companies, to manage our business, and as otherwise required or permitted by law. Offers for products and services from affiliated companies are developed under conditions designed to safeguard your personal information.

b. Information We Disclose to Third Parties. We may disclose personal information that we collect about you to nonaffiliated third parties to provide marketing services on our behalf or to other financial institutions with whom we have joint marketing agreements. We may also disclose all of the information we collect to other nonaffiliated third parties for our everyday business purposes, such as to process transactions, maintain account(s), respond to court orders and legal investigations, report to credit bureaus, offer our own products and services, protect against fraud, for institutional risk control, to perform services on our behalf, and as otherwise required or permitted by law.

When we share personal information about you with a nonaffiliated third party, they are required to limit their use of personal information about you to the particular purpose for which it was shared and they are not allowed to share personal information about you with others except to fulfill that limited purpose or as may be permitted or required by law.

An Important Notice Concerning Our U.S. Privacy Policy (Unaudited)
(continued)

3. How Do We Protect The Security and Confidentiality Of Personal Information We Collect About You?

We maintain physical, electronic and procedural security measures that comply with applicable law and regulations to help safeguard the personal information we collect about you. We have internal policies governing the proper handling of client information by employees. Third parties that provide support or marketing services on our behalf may also receive personal information about you, and we require them to adhere to appropriate security standards with respect to such information.

4. How Can You Limit Our Sharing Certain Personal Information About You With Our Affiliated Companies For Eligibility Determination?

By following the opt-out procedures in Section 6, below, you may limit the extent to which we share with our affiliated companies, personal information that was collected to determine your eligibility for products and services such as your credit reports and other information that you have provided to us or that we may obtain from third parties ("eligibility information"). Eligibility information does not include your identification information or personal information pertaining to our transactions or experiences with you. Please note that, even if you direct us not to share eligibility information with our affiliated companies, we may still share your personal information, including eligibility information, with our affiliated companies under circumstances that are permitted under applicable law, such as to process transactions or to service your account.

5. How Can You Limit the Use of Certain Personal Information About You by Our Affiliated Companies for Marketing?

By following the opt-out instructions in Section 6, below, you may limit our affiliated companies from marketing their products or services to you based on personal information we disclose to them. This information may include, for example, your income and account history with us. Please note that, even if you choose to limit our affiliated companies from using personal information about you that we may share with them for marketing their products and services to you, our affiliated companies may use your personal information that they obtain from us to market to you in circumstances permitted by law, such as if the affiliated party has its own relationship with you.

An Important Notice Concerning Our U.S. Privacy Policy (Unaudited)
(continued)

6. How Can You Send Us an Opt-Out Instruction?

If you wish to limit our sharing of eligibility information about you with our affiliated companies, or our affiliated companies' use of personal information for marketing purposes, as described in this notice, you may do so by:

- Calling us at: 610.260.7600
  Monday–Friday between 8a.m. and 5p.m. (EST)
- Writing to us at the following address:
  Morgan Stanley Alternative Investment Partners LP
  Attention: AIP Investor Services
  100 Front Street, Suite 400
  West Conshohocken, PA 19428

If you choose to write to us, your request should include: your name, address, telephone number and account number(s) to which the opt-out applies and whether you are opting out with respect to sharing of eligibility information (Section 4 above), or information used for marketing (Section 5 above), or both. Written opt-out requests should not be sent with any other correspondence. In order to process your request, we require that the request be provided by you directly and not through a third party. Once you have informed us about your privacy preferences, your opt-out preference will remain in effect with respect to this Policy (as it may be amended) until you notify us otherwise. If you are a joint account owner, we will accept instructions from any one of you and apply those instructions to the entire account.

Please understand that if you limit our sharing or our affiliated companies' use of personal information, you and any joint account holder(s) may not receive information about our affiliated companies' products and services, including products or services that could help you manage your financial resources and achieve your investment objectives.

If you have more than one account or relationship with us, please specify the accounts to which you would like us to apply your privacy choices. If you have accounts or relationships with our affiliates, you may receive multiple privacy policies from them, and will need to separately notify those companies of your privacy choices for those accounts or relationships.

7. What if an affiliated company becomes a nonaffiliated third party?

If, at any time in the future, an affiliated company becomes a nonaffiliated third party, further disclosures of personal information made to the former affiliated company will be limited to those described in Section 2(b) above relating to nonaffiliated third parties. If you elected under Section 6 to limit disclosures we make to affiliated companies, or use of personal information by affiliated companies, your election will not apply to use by any former affiliated company of your personal information in their possession once it becomes a nonaffiliated third party.

An Important Notice Concerning Our U.S. Privacy Policy (Unaudited)
(continued)

SPECIAL NOTICE TO RESIDENTS OF VERMONT

The following section supplements our Policy with respect to our individual clients who have a Vermont address and supersedes anything to the contrary in the above Policy with respect to those clients only.

The State of Vermont requires financial institutions to obtain your consent prior to sharing personal information that they collect about you with nonaffiliated third parties, or eligibility information with affiliated companies, other than in certain limited circumstances. Except as permitted by law, we will not share personal information we collect about you with nonaffiliated third parties or eligibility information with affiliated companies, unless you provide us with your written consent to share such information.

SPECIAL NOTICE TO RESIDENTS OF CALIFORNIA

The following section supplements our Policy with respect to our individual clients who have a California address and supersedes anything to the contrary in the above Policy with respect to those clients only.

In response to a California law, if your account has a California home address, your personal information will not be disclosed to nonaffiliated third parties except as permitted by applicable California law, and we will limit sharing such personal information with our affiliates to comply with California privacy laws that apply to us.

Information Concerning Trustees and Officers (Unaudited)

Name, Age and Address	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios Overseen in Fund Complex	Other Trusteeships/Directorships Held Outside the Fund Complex**
Independent Trustees					
Frank L. Bowman (72) c/o Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since August 2006	President, Strategic Decisions, LLC (consulting) (since February 2009); Director or Trustee of Morgan Stanley Funds (since August 2006); Chairperson of the Compliance and Insurance Committee (since October 2015); formerly, Chairperson of the Insurance Sub-Committee of the Compliance and Insurance Committee (2007-2015); served as President and Chief Executive Officer of the Nuclear Energy Institute (policy organization) (February 2005-November 2008), retired as Admiral, U.S. Navy after serving over 38 years on active duty including 8 years as Director of the Naval Nuclear Propulsion Program in the Department of the Navy and the U.S. Department of Energy (1996- 2004); served as Chief of Naval Personnel (July 1994-September 1996) and on the Joint Staff as Director of Political Military Affairs (June 1992-July 1994); knighted as Honorary Knight Commander of the Most Excellent Order of the British Empire; awarded the Officer de l'Orde National du Mérite by the French Government; elected to the National Academy of Engineering (2009).	90	Director of BP p.l.c.; Director of Naval and Nuclear Technologies LLP; Director Emeritus of the Armed Services YMCA; Director of the U.S. Naval Submarine League; Member of the National Security Advisory Council of the Center for U.S. Global Engagement and a member of the CNA Military Advisory Board; Chairman of the charity J Street Cup Golf; Trustee of Fairhaven United Methodist Church; and Director of other various nonprofit organizations.
Kathleen A. Dennis (63) c/oo Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since August 2006	President, Cedarwood Associates (mutual fund and investment management consulting) (since July 2006); Chairperson of the Liquidity and Alternatives Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, Senior Managing Director of Victory Capital Management (1993-2006).	91	Director of various non-profit organizations.
Nancy C. Everett (61) c/o Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since January 2015	Chief Executive Officer, Virginia Commonwealth University Investment Company (since November 2015); Owner, OBIR, LLC (institutional investment management consulting) (since June 2014); formerly, Managing Director, BlackRock, Inc. (February 2011-December 2013); and Chief Executive Officer, General Motors Asset Management (a/k/a Promark Global Advisors, Inc.) (June 2005-May 2010).	91	Member of the Virginia Commonwealth University School of Business Foundation; formerly, Member of Virginia Commonwealth University Board of Visitors (2013-2015); Member of Committee on Directors for Emerging Markets Growth Fund, Inc. (2007-2010); Chairperson of Performance Equity Management, LLC (2006-2010); and Chairperson, GMAM Absolute Return Strategies Fund, LLC (2006-2010).

Information Concerning Trustees and Officers (Unaudited) (continued)

Name, Age and Address	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios Overseen in Fund Complex	Other Trusteeships/Directorships Held Outside the Fund Complex**
Independent Trustees (continued)					
Jakki L. Haussler (59) c/o Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since January 2015	Chairman and Chief Executive Officer, Opus Capital Group (since January 1996); and formerly, Director, Capvest Venture Fund, LP (May 2000-December 2011); Partner, Adena Ventures, LP (July 1999-December 2010); Director, The Victory Funds (February 2005-July 2008)	91	Director of Cincinnati Bell Inc. and Member, Audit Committee and Compensation Committee; Director of Northern Kentucky University Foundation and Member, Investment Committee; Member of Chase College of Law Transactional Law Practice Center Board of Advisors; Director of Best Transport; Chase College of Law Board of Visitors; formerly, Member, University of Cincinnati Foundation Investment Committee; Member, Miami University Board of Visitors (2008-2011); Trustee of Victory Funds (2005-2008) and Chairman, Investment Committee (2007-2008) and Member, Service Provider Committee (2005-2008).
Dr. Manuel H. Johnson (67) c/o Johnson Smick International, Inc. 220 I Street, NE Suite 200 Washington, D.C. 20002	Trustee	Since July 1991	Senior Partner, Johnson Smick International, Inc. (consulting firm); Chairperson of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since July 1991); Co-Chairman and a founder of the Group of Seven Council (G7C) (international economic commission); formerly, Chairperson of the Audit Committee (July 1991-September 2006); Vice Chairman of the Board of Governors of the Federal Reserve System and Assistant Secretary of the U.S. Treasury.	91	Director of NVR, Inc. (home construction).
Joseph J. Kearns (74) c/o Kearns & Associates LLC 46 E. Peninsula Center #385 Rolling Hills Estates, CA 90274-3712	Trustee	Since August 1994	President, Kearns & Associates LLC (investment consulting); Chairperson of the Audit Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 1994); formerly, Deputy Chairperson of the Audit Committee (July 2003-September 2006) and Chairperson of the Audit Committee of various Morgan Stanley Funds (since August 1994); CFO of the J.Paul Getty Trust.	94	Director of Electro Rent Corporation (equipment leasing). Prior to December 31, 2013, Director of The Ford Family Foundation.

Information Concerning Trustees and Officers (Unaudited) (continued)

Name, Age and Address	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios Overseen in Fund Complex	Other Trusteeships/Directorships Held Outside the Fund Complex**
Independent Trustees (continued)					
Michael F. Klein (58) c/o Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since August 2006	Managing Director, Aetos Capital, LLC (since March 2000); Co-President, Aetos Alternatives Management, LLC (since January 2004) and Co-Chief Executive Officer of Aetos Capital LLC (since August 2013); Chairperson of the Fixed Income Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, Managing Director, Morgan Stanley & Co. Inc. and Morgan Stanley Dean Witter Investment Management, President, various Morgan Stanley Funds (June 1998-March 2000) and Principal, Morgan Stanley & Co. Inc. and Morgan Stanley Dean Witter Investment Management (August 1997-December 1999).	90	Director of certain investment funds managed or sponsored by Aetos Capital, LLC; Director of Sanitized AG and Sanitized Marketing AG (specialty chemicals).
Patricia Maleski*** (56) c/o Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since January 2017	Management Director, JPMorgan Asset Management (2013-2016); President, JPMorgan Funds (2010-2013), Chief Administrative Officer, JPMorgan Funds (2004-2010), Treasurer, JPMorgan Funds (2003-2004, 2008-2010), and Vice President and Board Liaison, JPMorgan Funds (2001-2004); Managing Director, J.P. Morgan Investment Management Inc. (2001-2013); Vice President of Finance, Pierpont Group (1996-2001); Vice President, Bank of New York (1995-1996); Senior Audit Manager, Price Waterhouse, LLP (1982-1995).	91	None.
Michael E. Nugent (80) 522 Fifth Avenue New York, NY 10036	Chair of the Board and Trustee	Chair of the Boards since July 2006 and Trustee since July 1991	Chair of the Boards of various Morgan Stanley Funds (since July 2006); Chairperson of the Closed-End Fund Committee (since June 2012) and Director or Trustee of various Morgan Stanley Funds (since July 1991); formerly, Chairperson of the Insurance Committee (until July 2006); General Partner, Triumph Capital, L.P., (private investment partnership) (1988-2013).	92	None.

Information Concerning Trustees and Officers (Unaudited) (continued)

Name, Age and Address	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios Overseen in Fund Complex	Other Trusteeships/Directorships Held Outside the Fund Complex**
Independent Trustees (continued)					
W. Allen Reed (69) c/o Perkins Coie LLP Counsel to the Independent Trustees 30 Rockefeller Plaza New York, NY 10012	Trustee	Since August 2006	Chairperson of the Equity Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Morgan Stanley Funds (since August 2006); formerly, President and CEO of General Motors Asset Management; Chairman and Chief Executive Officer of the GM Trust Bank and Corporate Vice President of General Motors Corporation (August 1994-December 2005).	91	Director of Legg Mason, Inc.; formerly, Director of the Auburn University Foundation (2010-2015).
Fergus Reid (84) c/o Joe Pietryka Inc. 85 Charles Colman Blvd. Pawling, NY 12564	Trustee	Since June 1992	Chairman, Joe Pietryka, Inc.; Chairperson of the Governance Committee and Director or Trustee of various Morgan Stanley Funds (since June 1992).	92	Formerly, Trustee and Director of certain investment companies in the JPMorgan Fund complex managed by JP Morgan Investment Management Inc. (1987-2012)

* This is the earliest date the Trustee began serving the Morgan Stanley Funds. Each Trustee serves an indefinite term, until his or her successor is elected.

** This includes any directorships at public companies and registered investment companies held by the Trustee at any time during the past five years.

*** Ms. Maleski joined the Board of Trustees of the Fund as an Independent Trustee effective January 1, 2017.

Information Concerning Trustees and Officers (Unaudited) (continued)

Name, Age and Address	Position(s) Held with Registrant	Length of Time Served**	Principal Occupation(s) During Past 5 Years
Officers *			
John H Gernon (53) 522 Fifth Avenue New York, NY 10036	President and Principal Executive Officer	Since September 2013	President and Principal Executive Officer of the Equity and Fixed Income Funds and the Morgan Stanley AIP Funds (since September 2013) and the Liquidity Funds and various money market funds (since May 2014) in the Fund Complex; Managing Director of the Adviser; Head of Product (since 2006).
Timothy J. Knierim (57) 522 Fifth Avenue New York, NY 10036	Chief Compliance Officer	Since December 2016	Managing Director of the Adviser and various entities affiliated with the Adviser; Chief Compliance Officer of various Morgan Stanley Funds and the Adviser (since December 2016) and Chief Compliance Officer of Morgan Stanley AIP GP LP (since 2014). Formerly, Managing Director and Deputy Chief Compliance Officer of the Adviser (2014-2016); and formerly, Chief Compliance Officer of Prudential Investment Management, Inc. (2007-2014).
Matthew Graver (48) 100 Front Street, Suite 400 West Conshohocken, PA 19428-2881	Vice President	Since June 2008	Chief Operating Officer of the Morgan Stanley Alternative Investment Partners Fund of Hedge Funds group and Managing Director of Morgan Stanley Investment Management Inc. Formerly, Senior Manager at PricewaterhouseCoopers LLP.
Mary E. Mullin (49) 522 Fifth Avenue New York, NY 10036	Secretary	Since June 1999	Executive Director of Morgan Stanley Investment Management Inc.; Secretary of various Morgan Stanley Funds (since June 1999).
Noel Langlois (47) 100 Front Street, Suite 400 West Conshohocken, PA 19428-2881	Treasurer and Chief Financial Officer	Since March 2010	Head of Alternative Investment Services of Morgan Stanley Investment Management and Managing Director of Morgan Stanley Investment Management Inc.; Director of Morgan Stanley Funds plc, Morgan Stanley Multi-Strategy Fund plc, Morgan Stanley Alpha Plus Funds plc, and Morgan Stanley Select Investment Strategies Limited.

* In addition, the following individuals who are officers of Morgan Stanley Investment Management Inc. or its affiliates serve as assistant secretaries of the Fund: Allan Fajardo, Francesca Mead and Sheri Schreck. The following individuals who are officers of Morgan Stanley Investment Management Inc. or its affiliates also serve as assistant treasurers of the Fund: Michael Conklin, Robert Creaney, Marnie Niziolek, Geoff Kron, Lee Spector and Francie Tai.

** This is the earliest date the Officer began serving the Morgan Stanley Funds. Each officer serves an indefinite term, until his or her successor is elected.

Alternative Investment Partners Absolute Return Fund

100 Front Street, Suite 400
West Conshohocken, PA 19428

Investment Adviser
Morgan Stanley AIP GP LP
100 Front Street, Suite 400
West Conshohocken, PA 19428

Sub-Adviser
Morgan Stanley Investment Management Limited
25 Cabot Square
Canary Wharf
London E14-4QA, England

Administrator, Custodian, Fund Accounting Agent and Escrow Agent
State Street Bank and Trust Company
One Lincoln Street
Boston, MA 02111

Transfer Agent
UMB Fund Services, Inc.
803 W. Michigan Street
Milwaukee, WI 53233

Independent Registered Public Accounting Firm
Ernst & Young LLP
One Commerce Square
2005 Market Street, Suite 700
Philadelphia, PA 19103

Legal Counsel
Dechert LLP
1095 Avenue of the Americas
New York, NY 10036

Counsel to the Independent Trustees
Perkins Coie LLP
30 Rockefeller Plaza
New York, New York 10112