Morgan Stanley Alternative Investment Partners

Hedge Fund Consulting Services

February 3, 2016

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Los Angeles, CA 310.788.2123

Representing Morgan Stanley AIP

José González-Heres, CAIA - José is a portfolio manager for the Morgan Stanley AIP Hedge Fund group and is a member of the AIP Fund of Hedge Funds Investment Committee. He is responsible for event-driven and corporate credit strategies. He joined Morgan Stanley AIP in 2001 as a senior research analyst and has 21 years of industry experience. Prior to joining the firm, José was Chief Executive Officer of a privately held software company, and has seven years of investment banking experience at both Bear Stearns and Prudential Securities. Previously, he also worked at IBM Credit Corporation as a corporate finance analyst and at IBM as a design engineer. José received a B.S. in electrical engineering from Northwestern University and an M.B.A. from the Yale School of Management. He also holds a U.S. and an international patent for his work on algorithms and has published research articles in periodicals including The Journal of Portfolio Management, The Journal of Fixed Income and The Journal of Alternative Investments. José has served as a lecturer at NYU's Stern School of Business. He holds the Chartered Alternative Investment Analyst designation. José is also a trustee of the Pennsylvania Ballet and serves on its finance committee.

Christopher Morser, CFA - Christopher is a managing director and the Head of the Morgan Stanley Alternative Investment Partners Hedge Fund Solutions group. In this role, he focuses on managing individual customized hedge fund portfolios, overseeing the hedge fund advisory platform assets and managing the team responsible for delivering investment advice and client advisory activities. He joined MSIM in 2006 and has 25 years of industry experience. Prior to MSIM, he was at Valence Capital, where he was responsible for external manger supervision and due diligence and served as portfolio manager for a fund of hedge funds vehicle. Before Valence Capital, Chris worked at Citadel Investment Group as a trader/analyst on the global event driven desk focusing on special situations/equity restructuring. Previously, he was a portfolio manager/analyst in a Chicago family office, overseeing long-only portfolios and running a leveraged financial sector hedge fund. Chris received a B.S. in finance from Penn State University, an M.B.A. from the University of Chicago and holds the Chartered Financial Analyst designation..

Robert Harkins, CFA - Rob is an Executive Director for Morgan Stanley Alternative Investment Partners, focusing on institutional relationship management and development. He joined Morgan Stanley AIP in 2011 and has 26 years of industry experience. Prior to joining the firm, Rob was the Western Territory Head for The Boston Company Asset Management and was a senior banker and Team Leader in Mellon Bank's Institutional Banking Group. Previously, Rob was a fundamental research analyst at National Westminster Bank. Rob earned a B.A. in Mathematics from Boston College and holds the Chartered Financial Analyst designation. He is a past Affiliate Chair of the California State Association of County Retirement Systems (SACRS), and currently serves on the Program Committee. Rob is also a Trustee on the Board of Directors of the University of Montana.

Table of Contents

Section

Why AIP?

- ***Discretionary and Non-Discretionary Services are offered – It is Fresno's choice*** – The approach would be the same. The difference is in the level of fiduciary responsibility assumed by Fresno.

- ***15 Year Track Record Managing a Similar Mandate*** – $800 million, institutional DB plan, full discretion, serving as an ERISA fiduciary (net of all fees).
  - +7.7% / yr. (3 years)
  - +7.9% / yr. (5 years)
  - +9.8% / yr. (15 years)

- ***Competitive Fees*** – 45 bps mgt. fee + 5% incentive fee for full discretion at $300MM. Additional potential pass through of 12 - 55 bps of AIP negotiated fee discounts.

- ***Core Competency*** – The implementation of custom hedge fund portfolios is our core competency. Over 70% of hedge fund $AUM is in portfolios customized to meet individual client needs.

- ***Well Resourced and Stable Team*** – 81 dedicated professionals, organized into 6 specialty sub-teams. 7 of 8 senior portfolio managers have worked together for more than a decade.

- ***Counterparty Profile*** – Morgan Stanley is well capitalized with an investment grade credit rating.

1. Source: Morgan Stanley as of December 31, 2015, unaudited.
2. Subject to third-party confidentiality obligations, information barriers established by Morgan Stanley in order to manage potential conflicts of interest, and applicable allocation policies.

Section 1 Company Overview

Morgan Stanley Alternative Investment Partners

A 100% owned subsidiary of
Morgan Stanley
(NYSE: MS)

Founded on April 1, 2000 in joint venture with the Weyerhaeuser Company

Specialists in the design and implementation of alternative investment programs

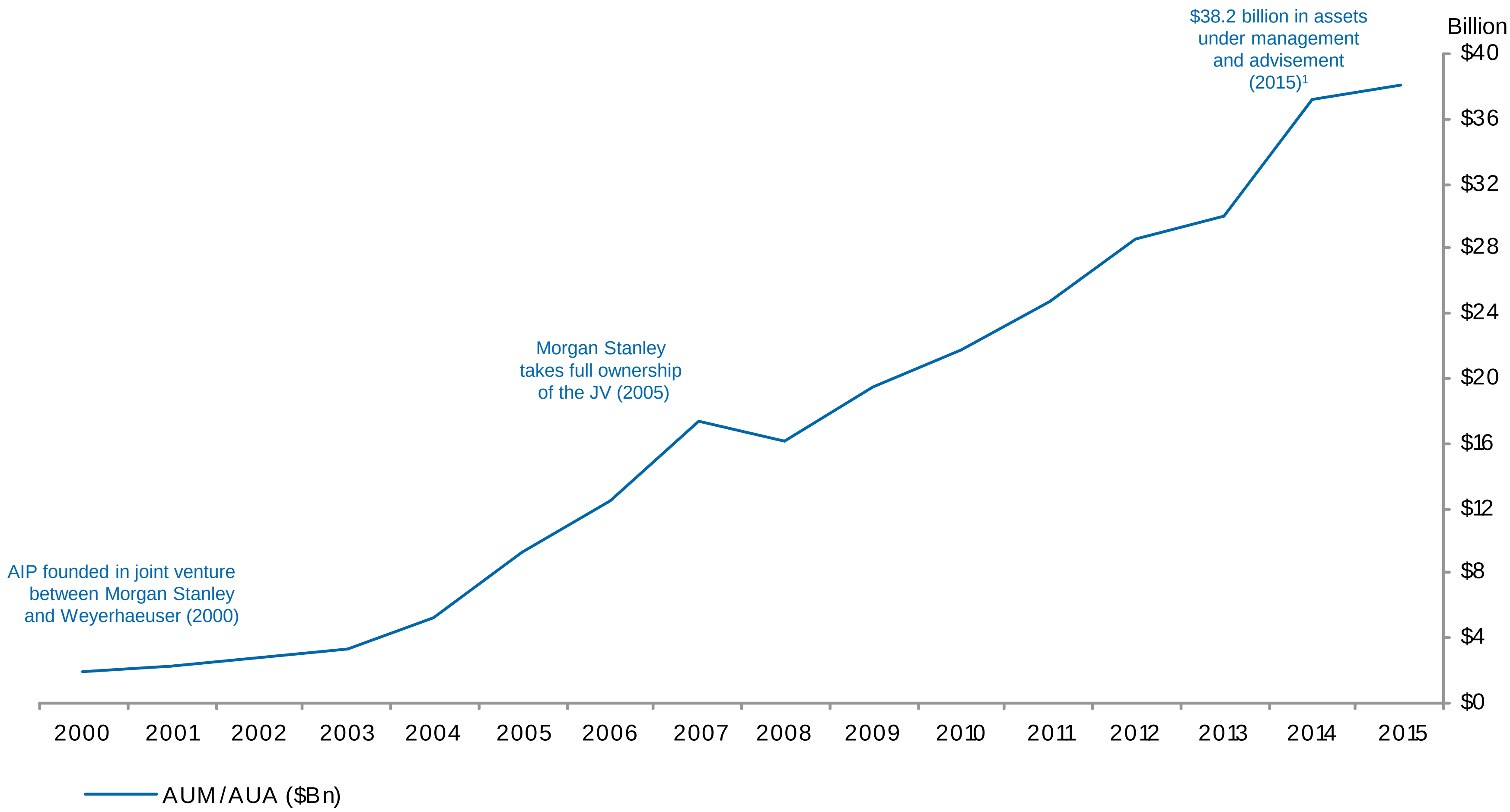
Fund of funds strategy offerings including:
custom portfolios, secondary & co-Investment programs and advisory

Investment Teams	$AUM/AUA (Bn)	# of Professionals
Hedge Funds	$22.2	73
Private Equity	$10.9	51
Real Estate	$1.5	10
Portfolio Solutions	$5.6	8
Total	**$38.2**[1]	**142**

Locations in Philadelphia - New York - Los Angeles - London - Singapore – Tokyo

1. Source: Morgan Stanley AIP. Data as of December 31, 2015. Morgan Stanley AIP's total assets of approximately $38.2 billion comprises approximately $29.7 billion assets under management ("AUM") and approximately $8.5 billion assets under advisement ("AUA"). Approximately $2 billion of assets cross investment in AIP product lines and have been subtracted from the total, so as to avoid double-counting. AUM is based on (i) total net asset value of its funds of hedge funds managed investment vehicles and separate accounts; (ii) value of all partners' capital accounts plus their unfunded commitments of its private equity funds of funds and private equity separate accounts; and (iii) value of all partners' capital accounts plus their unfunded commitments of its real estate funds of funds and real estate separate accounts. The value of private equity/real estate assets under management in separate accounts that are not solely dedicated to private equity/real estate managed by the team is defined as the carrying value of all private equity/real estate assets plus unfunded private equity/real estate commitments.

A history of pioneering work in alpha-beta decomposition…

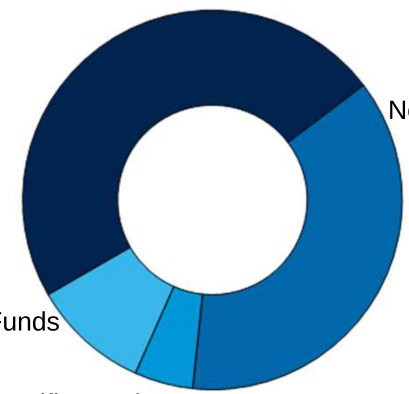


1. Subject to third-party confidentiality obligations, information barriers established by Morgan Stanley in order to manage potential conflicts of interest, and applicable allocation policies.
2. Source: Morgan Stanley AIP. Data as of December 31, 2015. Morgan Stanley AIP's total assets of approximately $38.2 billion comprises approximately $29.7 billion assets under management ("AUM") and approximately $8.5 billion assets under advisement ("AUA"). Approximately $2 billion of assets cross investment in AIP product lines and have been subtracted from the total, so as to avoid double-counting. AUM is based on (i) total net asset value of its funds of hedge funds managed investment vehicles and separate accounts; (ii) value of all partners' capital accounts plus their unfunded commitments of its private equity funds of funds and private equity separate accounts; and (iii) value of all partners' capital accounts plus their unfunded commitments of its real estate funds of funds and real estate separate accounts. The value of private equity/real estate assets under management in separate accounts that are not solely dedicated to private equity/real estate managed by the team is defined as the carrying value of all private equity/real estate assets plus unfunded private equity/real estate commitments.

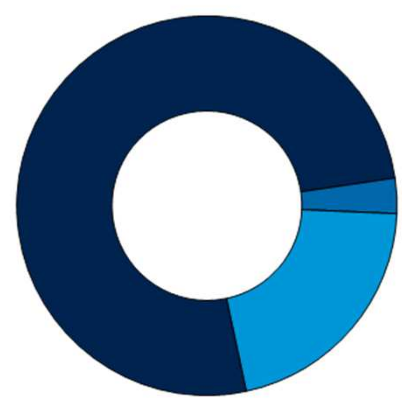
Our hedge fund capabilities are well developed…

- **81 dedicated hedge fund investment professionals**
  - 8 portfolio managers organized around strategy expertise, with an average of 17 years of experience
  - Dedicated quantitative, research and operational due diligence teams
- **Proprietary research is a hallmark. Our professionals are published regularly in leading industry journals.**
- **Over 70% of our AUM in FoHF discretionary portfolios are customized to meet client-specific needs.**

Investment Strategies



Assets Under Management



1. Data as of December 31, 2015. Morgan Stanley AIP total assets of approximately $38.2 billion comprises approximately $29.7 billion assets under management ("AUM") and approximately $8.5 billion assets under advisement ("AUA").

We meet a range of client hedge fund needs…

Target Return

Opportunistic Portfolios

Diversification:[1,2,3]	7–25 managers
Beta:	Unconstrained
Leverage:	Opportunistic
Indicative Benchmark:	HFRI FoF: Strategic

Diversified Portfolios

Diversification:[1,2,3]	25–40 managers
Beta:	Moderate
Leverage:	Low
Indicative Benchmark:	HFRI FoF: Composite

Diversified Low Volatility Portfolios

Diversification:[1,2,3]	25–40 managers
Beta:	Low
Leverage:	Low to None
Indicative Benchmark:	HFRI FoF: Conservative

Target Risk

Beta, Concentration, Leverage

1. Targeted. There is no guarantee that the number of managers in any portfolio will always be within the stated applicable range.
2. Data as of December 31, 2015.
3. Diversification does not assure a profit or protect against a loss in a declining market.

Morgan Stanley is a global financial services firm…[1]

- Founded in 1935
- Over 56,000 employees in 43 countries[1]
- Research, trading, underwriting and investment management
- Thought leadership and global resources differentiate

1. As of December 31, 2015.

Section 2 Investment Team

Summary of Key Strengths – AIP Hedge Fund Team

1. Resources

- 81 professionals
- 6 teams dedicated by function:
  - Portfolio Management
  - Investment Analytics
  - Quantitative Analysis
  - Operational Due Diligence
  - Middle Office functions
  - Hedge Fund Solutions

2. Experiences and Organization

- Investment Committee led by 8 Sr. PMs, with average 17 years of experience
- Specialized by strategy; knowledgeable across sectors
- Independent research combines with collaborative decision making
- 7 of 8 senior PMs have worked together for more than a decade

3. Alignment of Interests

- Compensation is tied to investment performance
- Formal revenue share agreement with parent
- $35MM of employee personal capital invested alongside our clients

1. As of December 31, 2015. Source: AIP unaudited.

Portfolio Management Team

Advantages:

- Dedicated to hedge fund investing
- Organized around strategy expertise
- Directly accountable for client portfolios
- Well-tenured
- Stable

Mustafa Jama

Chief Investment Officer

- 19 years of relevant industry experience
- M.B.A. from Harvard Business School
- M.S. from the University of Southern California
- B.S. from Southern University
- Experience: Man-Glenwood Capital Investments; Deutsche Bank Absolute Return Strategies; Bankers Trust / Deutsche Bank

José González-Heres

Event Driven, Credit and Capital Structure Arbitrage

- 21 years of relevant industry experience
- M.B.A. from Yale School of Management
- B.S. from Northwestern University
- Chartered Alternative Investment Analyst
- Experience: Bear Stearns; Prudential Securities; IBM and Suggestionator

Mark van der Zwan

Global Macro, Multi-Strategy, Secondaries, and Quantitative

- 19 years of relevant industry experience
- M.B.A. from Queen's University, Ontario
- B.S. from Queen's University, Ontario
- Chartered Financial Analyst
- Experience: Alan D. Biller & Associates; National Research Council of Canada

Lawrence Berner

Europe-Based Managers

- 17 years of relevant industry experience
- M.S. from The University of Chicago
- B.S. & B.A. from the University of Texas, Austin
- Chartered Financial Analyst
- Experience: Man-Glenwood Capital Investments, ABN AMRO, Salomon Smith Barney

Paresh Bhatt

Emerging Markets and Discretionary Macro

- 22 years of relevant industry experience
- M.B.A. from Wharton School of the University of Pennsylvania
- B.A. from Union College
- Experience: SEI Investments; Granite Associates; Lehman Brothers; Bankers Trust; the Federal Reserve Board

Jarrod Quigley

Relative Value, Hedge Fund Secondaries, Mortgages

- 12 years of relevant industry experience
- B.S. from Babson College
- Chartered Financial Analyst
- Experience: AG Edwards

Eric Stampfel

Long/Short Equity

- 18 years of relevant industry experience
- B.S. from Villanova University
- Chartered Financial Analyst
- Chartered Alternative Investment Analyst
- Experience: Ivy Asset Management, Cambium Capital Management, Kingdon Capital Management

Radha Thillainatesan

Systematic Strategies

- 13 years of relevant industry experience
- M.S. from New York University
- B.S. from McGill University
- Chartered Financial Analyst
- Experience: Larch Lane Advisors

Information as of December 31, 2015.

Analyst Team

Advantages:

- Dedicated to support of FoHF PM Team
- Specialization adds value
- Seasoned, with a range of skills and experiences

Emerging Markets and Discretionary Macro

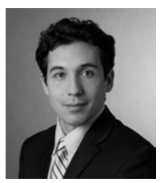
Robert Rafter

- 8 years of industry experience
- B.A. Georgetown University
- CFA
- Experience: Colchis Capital Mgmt, CNBC, Lehman

Kenneth Michlitsch

- 16 years of industry experience
- M.B.A. from the Wharton School, University of Pennsylvania
- B.S. and M.S. from MIT
- Experience: Lumen Advisors, KJM Consulting, JOMED, Fish & Neave

Systematic Strategies



Clinton Tepper

- 4 years of industry experience
- M.B.A. from Yale University
- B.S. from Cornell University
- CFA
- Experience: Ford, IBM, Susquehanna Intl. Group

Europe-Based Managers

Rene Song

- 3 years of industry experience
- MSc from Nottingham Business School
- B.A. from the University of Toronto
- Experience: Towers Watson

Long/Short Equity

Satya Prasad

- 14 years of industry experience
- B.B.A. from Ross, University of Michigan
- CFA
- Experience: Allianz Global, Sandell Asset Management, Veritable

Adam Piro

- 17 years of industry experience
- B.B.A. from George Washington University
- CFA
- Experience: Meridian Investment Co.

Global Macro, Multi-Strategy and Secondaries

Max Egan

- 8 years of industry experience
- M.B.A from Carnegie Mellon University
- B.S. from Carnegie Mellon University
- Experience: American Century Investments, NERA Economic Consulting

Johan Detter

- 2 years of industry experience
- B.S. from Trinity College
- Experience: K2 Advisors

Information as of December 31, 2015.

Analyst Team (continued…)

Advantages:

- Dedicated to support of FoHF PM Team
- Specialization adds value
- Seasoned, with a range of skills and experiences

Non-Equity Relative Value, Hedge Fund Secondaries and Mortgages

Brian Ksenak

- 7 years of industry experience
- B.S. from Villanova University
- Experience: Citigroup

Tony Idugboe

- 6 years of industry experience
- B.B.A. from Howard University
- Experience: Goldman Sachs, Merrill Lynch

Dan Hu

- 2 years of industry experience
- B.A. from Swarthmore
- Experience: Deutsche Bank, QVT Financial

Event Driven, Credit and Capital Structure Arbitrage

Christina Han

- 16 years of industry experience
- M.B.A. from the Wharton School, University of Pennsylvania
- B.A. from Shanghai International Studies University
- CFA
- Experience: Goldman Sachs, ING Barings, Arthur Anderson

Jeff Scott

- 7 years of industry experience
- B.S. from Drexel University
- CFA, CAIA
- Experience: Veritable, L.P.

Information as of December 31, 2015.

Quantitative Analysis Team

Advantages:

- Partner with PM Team in analyzing and monitoring HF risk and return profile/drivers
- Individual HF manager level and AIP FoHF portfolio level analysis
- Technical, quantitative and programming backgrounds
- Complement to fundamental/qualitative analysis and integral to vetting of an investment thesis

Eban Cucinotta

Head of Quantitative Analysis

- 12 years of relevant industry experience
- M.B.A. from the Yale School of Management
- B.S. from Carnegie Mellon University
- Experience: Peter D. Hart Research, MCI Telecommunications

Dima Skvortsov

- 10 years of relevant industry experience
- M.S. from St. Petersburg State Polytechnic University
- Chartered Financial Analyst
- Experience: iCarnegie; Sonic Foundry

Ping Chen, Ph. D.

- 8 years of relevant industry experience
- Ph.D. from Carnegie Mellon University
- B.S. from Tsinghua University, China
- M.S. from the School of Computer Science at Carnegie Mellon University

Steven Shin

- 10 years of relevant industry experience
- Chartered Financial Analyst
- M.B.A. from the Yale School of Management
- B.S. from University of Illinois at Urbana-Champaign

Information as of December 31, 2015.

Operational Due Diligence Team

Advantages:

- Sole responsibility is operational due diligence
- 2 operational due diligence team members make on-site visits with each hedge fund prior to investment, meet with key members of the hedge fund's business such as CFO, COO, CCO
- Veto authority over investment decisions
- Experienced

Peter Vasiliadis

Head of Operational Due Diligence

- 18 years of relevant industry experience
- B.S. from the University of Delaware
- Experience: PricewaterhouseCoopers, Tait, Weller & Baker, Delaware Group of Funds, Prudential

Jonathan Pistilli

- 13 years of relevant industry experience
- B.S. from West Chester University
- Experience: PricewaterhouseCoopers, Arthur Andersen

Sean Ondish

- 11 years of relevant industry experience
- B.S. from the University of Delaware
- Experience: PricewaterhouseCoopers

Douglas Ford

- 11 years of relevant industry experience
- M.B.A. from Villanova University
- B.S. from Shippensburg University
- Experience: Cohen and Company, SEI Investments

Ryan Verano

- 9 years of relevant industry experience
- B.S. from Penn State University
- Experience: PricewaterhouseCoopers

Jason Curran

- 8 years of relevant industry experience
- B.A. from Villanova University

Chris Auffenberg

- 8 years of relevant industry experience
- B.S. from Villanova University
- Experience: Morgan Stanley Financial Control Group; Credit Suisse (Product Controller)

Erika Lehmer

- 9 years of relevant industry experience
- B.A. from Penn State University
- Experience: RAA Management, Chatham Financial Corporation, The Carlyle Group, O'Connell & Glock P.C.

John Gregitis

- 1 year of relevant industry experience
- B.S. with cum laude honors from the University of Scranton

Information as of December 31, 2015.

Middle Office Team

Advantages:

- Team of six streamline operational burdens for AIP investment teams and client investors
- Handle liquidity management, trade execution and compliance on all AUM

Matthew Graver

Chief Operating Officer

- 25 years of relevant industry experience
- M.B.A. from Villanova University
- B.S. from Pennsylvania State University
- Experience: PricewaterhouseCoopers, PFPC and Coopers & Lybrand

Sloan Walker

Senior Administrative Officer

- 16 years of relevant industry experience
- J.D. from University of Virginia Law School
- B.A. from Yale University
- Chartered Financial Analyst
- Experience: Oppenheimer Funds, Moody's Investor Services, U.S. Securities and Exchange Commission

Lisa Shaposhnick

- 15 years of relevant industry experience
- B.A. from Pennsylvania State University
- Experience: BDO, Rothstein Kass

Phillip Crystal

- B.S. from the University of Maryland
- Experience: Orthobond, Aerospine

Matthew Congdon

- 3 years of relevant industry experience
- B.A. from Temple University
- Experience: Vanguard

John Zaleski

- 23 years of relevant industry experience
- M.B.A. from Temple University
- B.S. from Pennsylvania State University
- Experience: SEI Investments

Jamie Durant

- 12 years of relevant industry experience
- J.D. from Touro College- Jacob D. Fuchsberg Law Center
- B.A. from Rutgers University
- Experience: Merrill Lynch, Oppenheimer Asset Mgmt., Deutsche Bank Asset Mgmt, Citigroup

Angelique Robinson

- 1 year of relevant industry experience
- B.A. from Temple University
- Experience: Aramark, AmeriGas Propane

Information as of December 31, 2015.

Hedge Fund Solutions Team

Advantages:

- Focused on policy development, client education and interface of alt investing with larger client investment program needs
- Conduct specialized client-specific analysis
- Key focus on identification and management of risk
- Report directly to HF team CIO
- Experienced

Rui de Figueiredo

- 17 years of relevant industry experience
- Ph.D. from Stanford University
- A.B from Harvard University
- Experience: Citi Alternative Investments

Christopher Morser

Head of Hedge Fund Solutions

- 25 years of relevant industry experience
- M.B.A from the University of Chicago
- B.S. from Penn State
- Chartered Financial Analyst
- Experience: Valence Capital, Citadel Investment Group

Patrick Reid

- 18 years of relevant industry experience
- BSc from Bath University
- Chartered Financial Analyst
- Experience: Citigroup Global Wealth Management

Andrew Malek

- 12 years of relevant industry experience
- BSc from the University of Surrey
- Chartered Alternative Investment Analyst

Michelle Schepis

- 9 years of relevant industry experience
- B.S. from Fordham University
- Experience: Parker Global Strategies

Robert Seelos

Chief Operating Officer

- 17 years of relevant industry experience
- B.A. from Boston College
- Experience: Morgan Stanley Wealth Management

Pennapa Tantiyakul

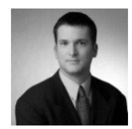
- 7 years of relevant industry experience
- M.S. from Rutgers University
- B.S. from Chulalongkorn
- Chartered Alternative Investment Analyst
- Experience: Lipper, ING Fund of Hedge Funds, IBM

Victoria Eckstein

- 8 years of relevant industry experience
- J.D. Cardozo School of Law
- B.A. from Brandies University
- Experience: Morgan Stanley Wealth Management

Nick Buddell

- 8 years of relevant industry experience
- B.A. from Nottingham Business School
- Chartered Alternative Investment Analyst



Brian McGrath

- 11 years of relevant industry experience
- M.B.A. and B.S. from Villanova University
- Experience: Toews Corporation

Allyson Copertino

- 17 years of relevant industry experience
- B.A. from SUNY College at Old Westbury
- Experience: Ivy Asset Management

Kristen DeBono

- 6 years of relevant industry experience
- B.S. from New York University, Leonard Stern School of Business

Information as of December 31, 2015.

Section 3

Investment Approach

Philosophy

AIP believes:

- **Separating and evaluating the sources of hedge fund returns is the best way to find alpha-producing managers**
  - Quantitative analysis: identify betas (returns from the market), alphas (returns from market timing and security selection) and illiquidity premium
  - Qualitative analysis: identity sustainable competitive advantages of managers' investment process, organization or people

- **An informed market view coupled with opportunistic insights determines and refines our portfolio strategy**
  - Strategic weighting of alpha managers drives long-term consistency
  - Tactical shifts and creativity ahead of changing market conditions can add significant value

- **Insisting on business quality prevents "slippage" of alpha by adverse events, terms or costs**
  - Underlying manager quality confirmed through operational due diligence
  - We use our scale and market position for the benefit of investors in several ways

The statements above reflect the views and opinions of Morgan Stanley AIP as the date hereof and not as of any future date.

Investment Process

Sourcing

Identify potential investments

- Reputation as a "partner of choice"
  - Primaries
  - Secondaries
  - Co-investment
  - Talent Development
- Extensive network built over decades
  - MS internal[1]
  - AIP external
- New talent discovery and access to premier funds
  - Diversity of alpha sourcing
  - No selection bias at sourcing level

Analyzing

Evaluate and decide

- Qualitative assessment
  - Strategy specialists
  - Consistent framework
- Quantitative confirmation
  - Separation of alpha and betas
- Operational due diligence
  - AIP resources, MS network[1], third-party investigation
  - Full IC veto

Investing

Optimize risk/returns through portfolio construction

- Strategic outlook defines market opportunity
- Risk/return analysis at fund and AIP portfolio levels
- Optimal position sizing methodology
  - Alpha, beta, risk and correlations are all considered

Monitoring

Validate decision making

- Manager-level control
  - Style, risk, business operations
  - Transparency
  - Z-score process
- Portfolio-level control
  - Market and idiosyncratic risks
  - Concentration / diversification
  - Leverage/ liquidity
  - Quality/consistency

1. Subject to confidentiality obligations, information barriers established by Morgan Stanley to manage potential conflicts of interest, and applicable allocation policies.
2. The statements above reflect the views and opinions of Morgan Stanley AIP as the date hereof and not as of any future date.

Sourcing

- Our capital markets, prime brokerage and hedge fund investing activities advantage our sourcing capabilities[1]
  - 4900+ funds in our monitoring system; 1200+ tracked on a monthly cycle[2]
  - Morgan Stanley serves as prime broker for approximately 730 hedge funds, the second highest total in the industry[3]

- We invest with hedge fund managers in multiple forms, structures and markets
  - 100+ funds analyzed in-full each year; 20+ new funds added

- Maintain established relationships and develop emerging talent
  - Set of 180+ approved and investable hedge funds
  - Over 60% of our funds in customized structures, having advantaged fee, capacity or structural terms for our clients
  - 80% of our invested funds are smaller than $1.5B in AUM
  - "Manufacture capacity" with managers and strategies we like

1. Subject to confidentiality obligations, information barriers established by Morgan Stanley to manage potential conflicts of interest, and applicable allocation policies.
2. As of September 30, 2015
3. Source: Hedge Fund Intelligence, October 2012. Subject to confidentiality obligations, information barriers established by Morgan Stanley to manage potential conflicts of interest/ applicable policies.
4. The statements above reflect the views and opinions of Morgan Stanley AIP as the date hereof and not as of any future date.

Operational Due Diligence

Sourcing > **Analyzing** > Investing > Monitoring

- Nine professionals dedicated to assessing operational integrity
- Complete veto power over Investment Committee decisions
- No manager that AIP has invested with has failed for operational reasons

Organization		Regulatory Compliance		Control Environment		Audited Financial Statements	
History of firm	Turnover	Regulatory filings	SEC registration	Valuation	Trading	Audit opinions	Timing of issuance
Ownership structure	Compensation structure	Compliance framework	Disciplinary actions	Reconciliations	Cash / collateral management	Related-party transactions	Subsequent events
Growth in AUM	Financial stability	Offshore listings	Legal documents	Capital activity	Counterparty risk	Fees/expenses	Portfolio composition
Track record	Service providers	FSA Authorization	SEC filing	Fees / expenses	Cash controls	Policy adherence	Auditor qualifications
Affiliated entities	Business continuity			NAV calculations		Performance	Contingent liabilities
Resource depth							

← Transparency — Intangibles →

1. Source: Morgan Stanley AIP.

Portfolio Construction

Attribution

- Separate a hedge fund managers' skill-based returns from market exposures, exotic betas and naive trading strategies
- Quantify how much value each manager historically added through both market timing and security selection (alpha)

Forecasting

- Forecast each manager's expected performance based on combination of:
  - Historical performance
  - Views developed from quantitative analysis
  - Tactical views and factor exposures

Optimization

- Build portfolios designed to best meet client investment objectives given:
  - Risk, return and correlation forecasts
  - Confidence in these forecasts

Investment Committee Review

- Investment Committee Approval
  - Confirm risk-return parameters are consistent with bottom-up manager outlook
  - Confirm medium-term tactical views are appropriately represented

The statements above reflect the views and opinions of Morgan Stanley AIP as the date hereof and not as of any future date.

Favorable Investment Terms

- We seek to use scale to exact favorable investment terms.
- All fee savings are passed directly to our clients.

Fee savings – range from 12 bps to 55 bps[1]	30%
Most Favored Nation status	55%
Liquidity terms	13%
One or more of the above	60%

1. Data as of 12/31/2015. Morgan Stanley AIP, unaudited. Savings range across AIP FoHF portfolios / custom accounts and based upon assumption of 10% return over the next year and using current investment balances. There is no certainty that favorable investment terms will be obtained from any hedge fund manager, or that existing discounts will persist indefinitely.

Section 4

Meeting the FCERA Need

Fresno IPS Investment Philosophy and Objectives…

- **Fresno Investment Philosophy:** Key tenants of the FCERA investment philosophy are as follows…
  - Protect the fund corpus from inflation: Balance the objective of protecting the fund corpus and protecting purchasing power against erosion by inflation.
  - Incur the risk necessary: to earn adequate returns required to satisfy the financial obligations of the fund, while carefully understanding risk-return trade-offs.
  - Protect against large losses: Recognize the severe consequences associated with a large loss.

(FCERA IPS pg. #4)

- **Fresno Investment Objectives:** "The paramount objective is to satisfy the financial obligations of the Fund." Specific objectives in implementation are as follows… *(FCERA IPS pg. #4)*
  - Fund benefits: Earn a LT rate of return that will pay all promised benefits.
  - Growth of capital: Emphasize LT growth of principal while avoiding excessive downside risk.
  - Volatility: Short term volatility should be consistent with the volatility of a comparable risk benchmark.
  - Liquidity: Assure adequate funds are available to meet near term obligations.
  - Long term perspective: Earn a time weighted total return in excess of the benchmarks established, net of fees.

The Fresno Medium and Long Term Performance Objectives…

- **Fresno Medium Term Performance Objectives by Asset Class – Index Relative:** The total return of the Fund, compounded over a 3-5 year period, should exceed the return of a custom weighted index constructed of the following components: *(FCERA IPS)*

31%	Barclays Global Aggregate Bond Index
17%	Russell 3000 Index
19%	MSCI ACWI-Ex US Index
8%	**HFRI Fund of Funds Composite Index**
6%	Russell 3000 + 250 bps/yr.
8%	Barclays Aggregate Index + 250 bps/yr.
8%	NCREIF Open-End Diversified Core (ODCE) Index
3%	DJ UBS Commodity Index

- **Fresno Long Term Performance Objective:** Meet or exceed the actuarial assumed rate of return.

  7.25% is the actuarial assumed rate of return for Fresno per the CAFR of June 30, 2015 (pg. #60).

Fresno LT Expected Rate of Return By Asset Class…

- **Long Term expected rate of return:** The below table presents current target allocation & projected rates of return for major asset classes in the Fresno investment program. These support the FCERA actuarial assumed rate of **7.25%**.

(FCERA CAFR of 6/30/15, pg. 33, as updated)

Asset Class	Target Allocation	LT Expected Return
Equity		
Large Cap U.S. Equity	14%	5.7%
Small Cap U.S. Equity	3%	4.7%
Total Domestic Equity	17%	
Int'l Equity – Developed Mkt	12%	9.5%
Emerging Mkts. Equity	7%	11.5%
Total International Equity	19%	
Fixed Income		
Domestic FI	19%	3.8%
Foreign FI	12%	2.5%
US govt, including TIPS	0%	2.2%
Pvt. Mkts & Alternatives		
Hedge Funds	**8%**	**6.0%**
Private Equity	6%	7.7%
Real Estate	5%	5.1%
Infrastructure	3%	5.1%
Commodities	3%	4.1%
Pvt. Credit	8%	7.8%
Cash	0%	2.1%
Total	100%	

The Established Goals for the Fresno Hedge Fund Program…

- **Return goal – absolute:** The Fresno Total Portfolio actuarial required rate of return of **7.25%** is based, in part, upon the hedge fund program being able to achieve the following rates of return. *(CAFR June 30, 2015 pg. 33)*

3.9%	real
2.1%	inflation
6.0%	nominal

- **Return goal – index relative:** The IPS directs that the return of the HFRI Fund of Funds Composite Index be exceeded over the medium term (3-5 yr. periods).

- **Risk target:** Maintain an overall risk profile that is appropriate for institutional pension monies (std. dev. in the range of ½ that of equities).

- **Diversification:** Provide unique sources of return to the overall portfolio. Seek to minimize "betas" to public equities and fixed income.

- **Down market protection:** Seek to protect the Fund corpus, consistent with Fresno IPS Investment Philosophy, by seeking to provide risk reduction in the form of down market protection, esp. down equity markets.

Example Solution – A Representative Account

Were AIP to be chosen to partner with FCERA in the management of its hedge fund program, analysis of the Representative Account could serve as one tool by which a specific customized portfolio could be developed individually for FCERA. This would be accomplished by granular review of each degree of freedom, portfolio construction boundary and risk control metric which underlie the approach to manager selection and portfolio construction.

As of December 31, 2015.

About the Representative Account

- **The return stream characteristics and overall risk profile of the Fresno Hedge Fund Investment Program are similar to those of the "flagship" custom FoHF account on which our firm was founded more than 15 years ago.**

- **The Representative Account Portfolio is an $800MM portfolio for a large Western U.S. DB pension plan.**

  - Managed by AIP since our inception, 15 years ago
  - The founders of our firm originally began construction of this portfolio in 1985, 30+ years ago
  - Absolute-return orientation
  - Medium volatility profile
  - Low beta to public equities and fixed income

- **Senior Portfolio Manager, Jose Gonzalez-Heres, was hired and trained by the founders of our firm.**

  - 14 years experience at Morgan Stanley AIP
  - Has been involved in the management of the Representative Account for the past decade
  - Jose is today the lead portfolio manager for this account

As of December 31, 2015.

Rep Account - Summary of Portfolio Construction Guidelines & Constraints

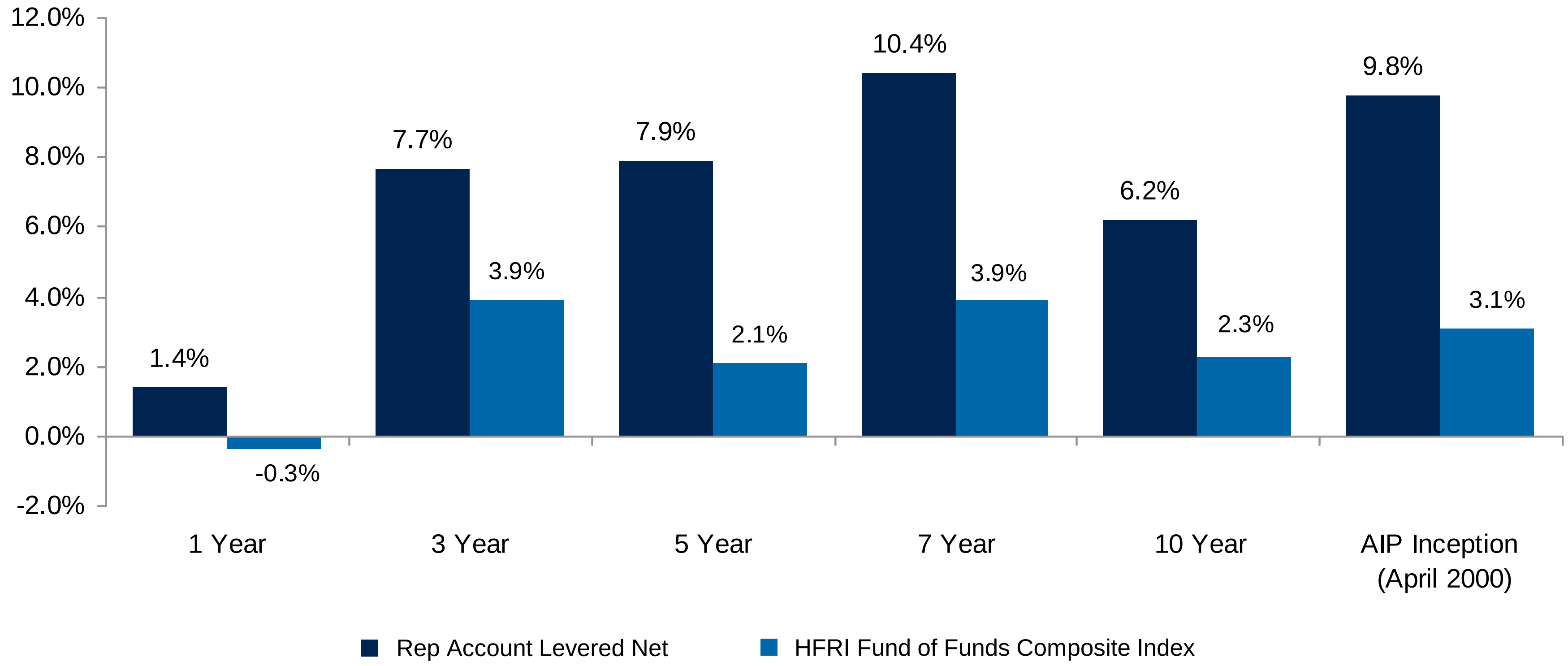
The following presents key characteristics, guidelines & portfolio constraints for the Rep Account

Metric	Rep Acct
Account Type:	Separately managed account - $800MM
Role of AIP as advisor:	Fiduciary
Return target:	
- Absolute:	Sufficient to support the ongoing funding of promised retirement benefits (expected return on plan assets overall = 9%).
- Universe relative:	Achieve long term returns that are among the best of the portfolio's peers (HFRI FoF Composite Index).
Volatility target:	Volatility is generally targeted to be ½ that of global equities (i.e. MSCI ACWI). Annualized volatility for the 5yrs ending 12/31/2015 = 5.58%
Beta targets	
- Equities:	0.2 to 0.3 target for beta to equities (MSCI ACWI)
- Fixed Income:	0.0 target for beta to fixed income (Barclays US Aggregate Index)
Liquidity:	Min. 50% redeemable in 12 months or less; Max. 20% with recurring lockups of 24 months or more.
Leverage – FoF level:	Yes - Allowed – Max. of 2.0x at FoF level
Leverage – HF level:	No boundary enumerated
Transparency:	Balance transparency against access to best in class managers 68% of funds on RiskMetrics with position level reporting as of 12/31/15
Range of holdings:	20 to 45 holdings, generally (exclusive of secondaries & co-investments)
Geography:	Global
Range of HF strategy types:	Broad range (no restriction)
Max. single strategy type:	No restriction
Max. single manager:	30%
Max. single fund:	20%
Mgr. Size/fund size:	Broad range
Secondaries:	Yes – Allowed
Co-Investments:	Yes – Allowed
Op Due diligence test:	100% veto authority by the AIP HFoF Operational Due Diligence team.

1. As of 12/31/15.

Representative Account Portfolio Performance

Annualized Performance
Levered Net of Fees[1]
Data as of December 31, 2015

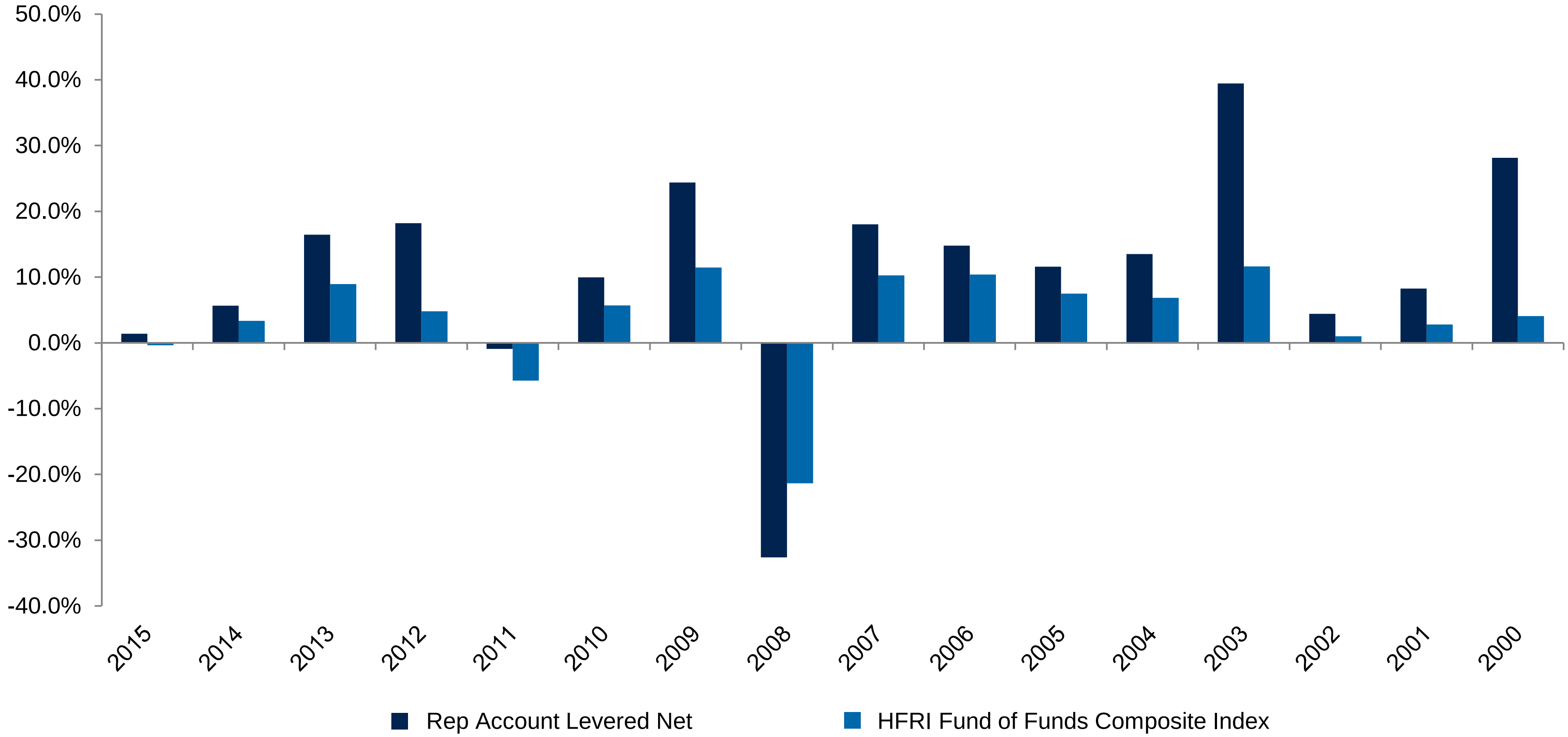


1. Net of all fund expenses and management fees. Source: AIP unaudited. **Past performance is not indicative of future results**.
2. Performance for periods less than one year is not annualized.
3. Maximum allowed leverage at FoF level is 2.0x; actual as of January 2016 was 1.40x.

The results above are not intended to predict the performance of any specific investment. Indices are unmanaged and their returns do not include sales charges or fees, which would lower performance. It is not possible to invest directly in an index. Index performance is not illustrative of fund performance.

Representative Account Portfolio Performance

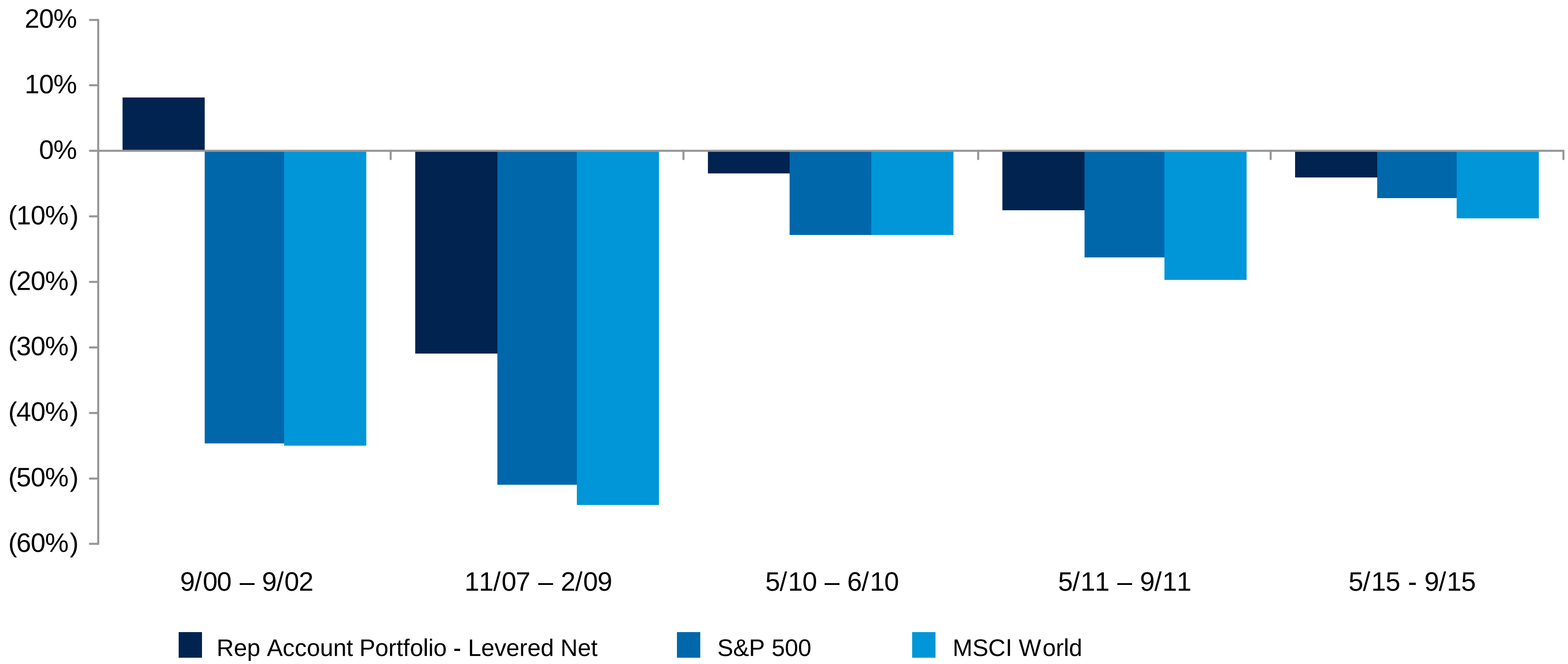
Annual Calendar Year Performance
Levered Net of Fees[1]
At December 31, 2015



1. Source: AIP unaudited. **Past performance is not indicative of future results**.
2. Maximum allowed leverage at FoF level is 2.0x; actual as of January 2016 was 1.40x.
The results above are not intended to predict the performance of any specific investment. Indices are unmanaged and their returns do not include sales charges or fees, which would lower performance. It is not possible to invest directly in an index. Index performance is not illustrative of fund performance.

Performance in Down Equity Markets

Shown below are all periods of equity market draw down of a cumulative -10% or greater since Representative Account portfolio inception.



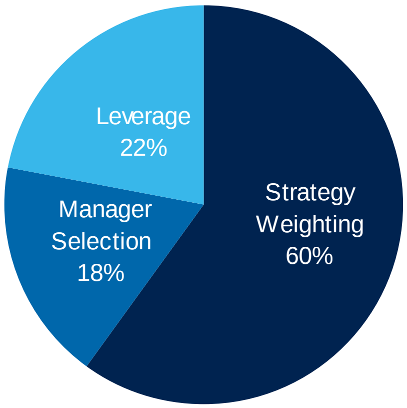
1.Source: AIP unaudited. Data through 12/31/2015. **Past performance is not indicative of future results.**
2.The above performance is calculated on a cumulative basis. Performance for periods less than one year is not annualized.
Maximum allowed leverage at FoF level is 2.0x; actual as of January 2016 was 1.40x.
The results above are not intended to predict the performance of any specific investment. Indices are unmanaged and their returns do not include sales charges or fees, which would lower performance. It is not possible to invest directly in an index. Index performance is not illustrative of fund performance.

Representative Account Attribution

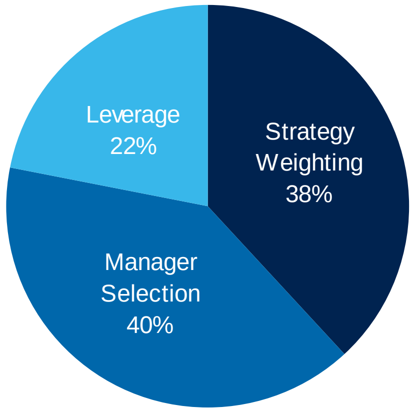
Net Performance Attribution (sums to 100% of annualized return)

Data as of December 31, 2015

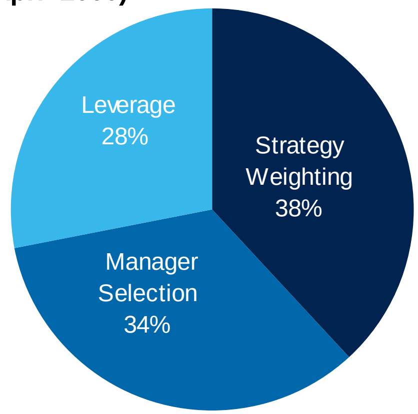
Three Years



Five Years



Since AIP inception (April 2000)



Performance Attribution (% of Annualized Return)

	Three Years	Five Years	Since AIP inception (April 2000)
Strategy Weighting	4.6%	3.0%	3.7%
Manager Selection	1.4%	3.2%	3.3%
Leverage	1.7%	1.7%	2.7%
Total Return	**7.7%**	**7.9%**	**9.7%**

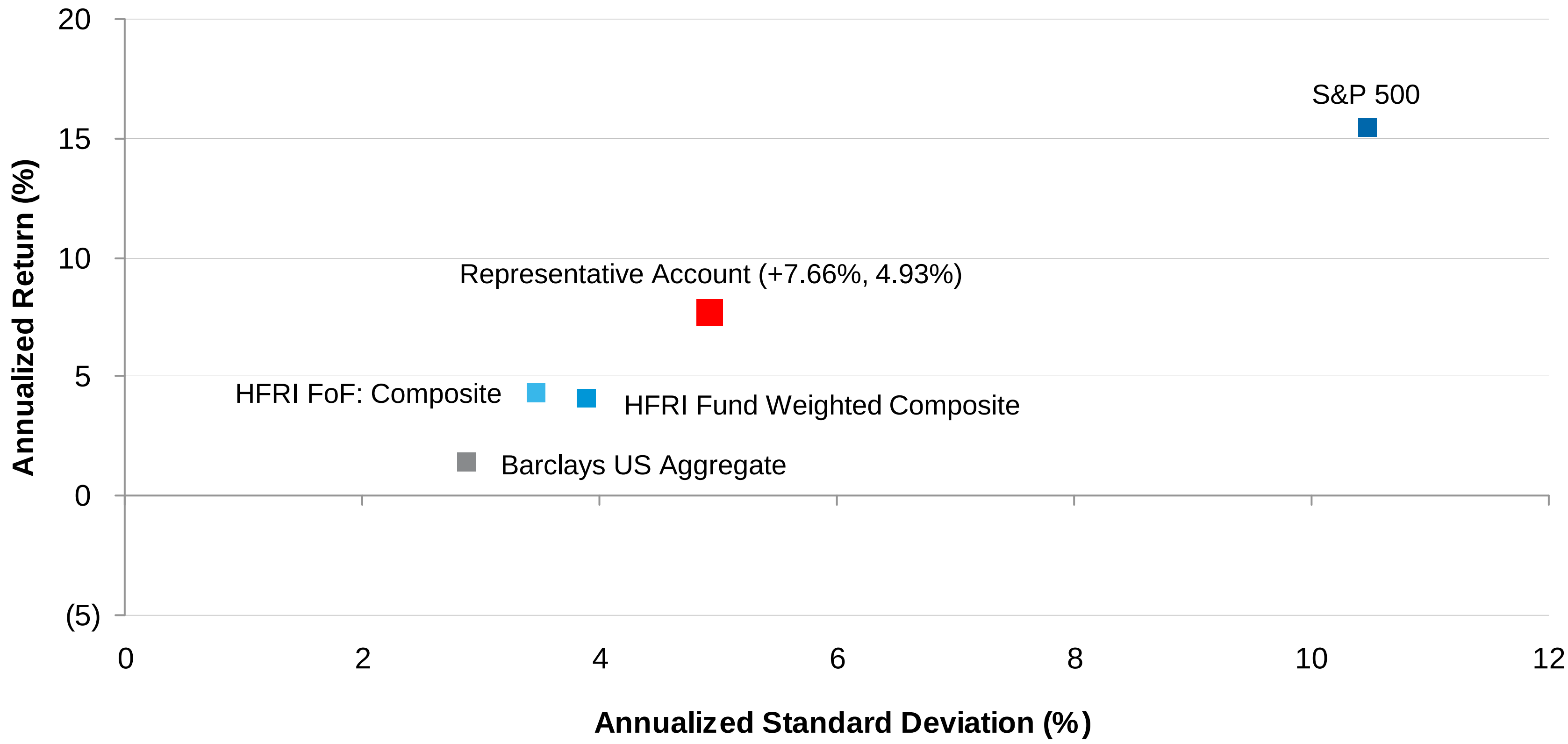
As of December 31, 2015. Source: AIP unaudited and based on levered net returns.

Morgan Stanley

Alternative Investment Partners

Representative Account – Return vs. Risk

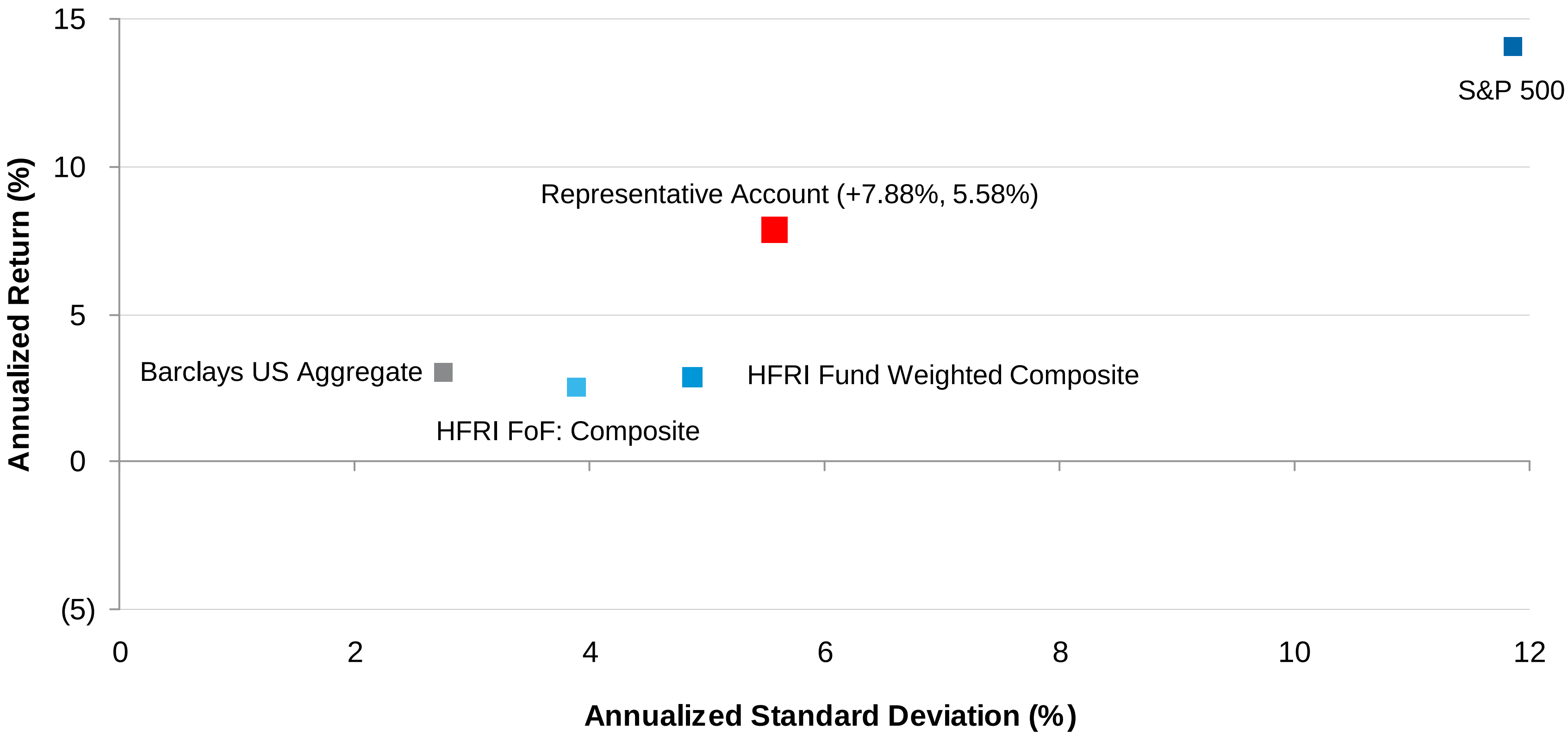
3 Years Ending December 31, 2015



1. Source: Hedge Fund Research, Inc. for HFRI indices; Bloomberg for all the other indices; AIP unaudited and based on levered net returns.
Past performance is not indicative of future results. The results above are not intended to predict the performance of any specific investment Indices are unmanaged and their returns do not include sales charges or fees, which would lower performance. It is not possible to invest directly in an index. Index performance is not illustrative of fund performance.

Representative Account – Return vs. Risk

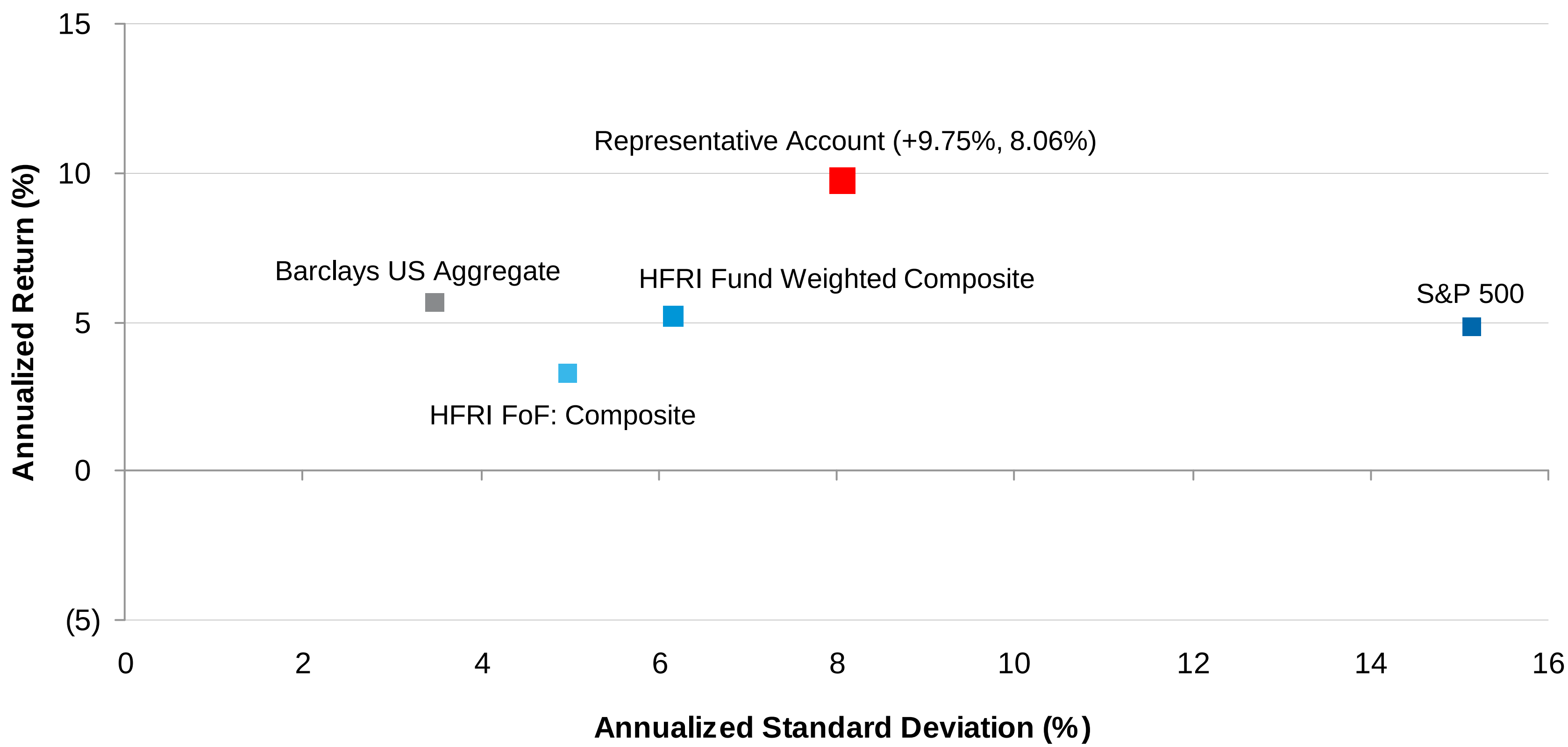
5 Years Ending December 31, 2015



1. Source: Hedge Fund Research, Inc. for HFRI indices; Bloomberg for all the other indices ; AIP unaudited and based on levered net returns.
Past performance is not indicative of future results. The results above are not intended to predict the performance of any specific investment Indices are unmanaged and their returns do not include sales charges or fees, which would lower performance. It is not possible to invest directly in an index. Index performance is not illustrative of fund performance.

Representative Account – Return vs. Risk

Since Inception (April 2000) to December 31, 2015



1. Source: Hedge Fund Research, Inc. for HFRI indices; Bloomberg for all the other indices ; AIP unaudited and based on levered net returns.
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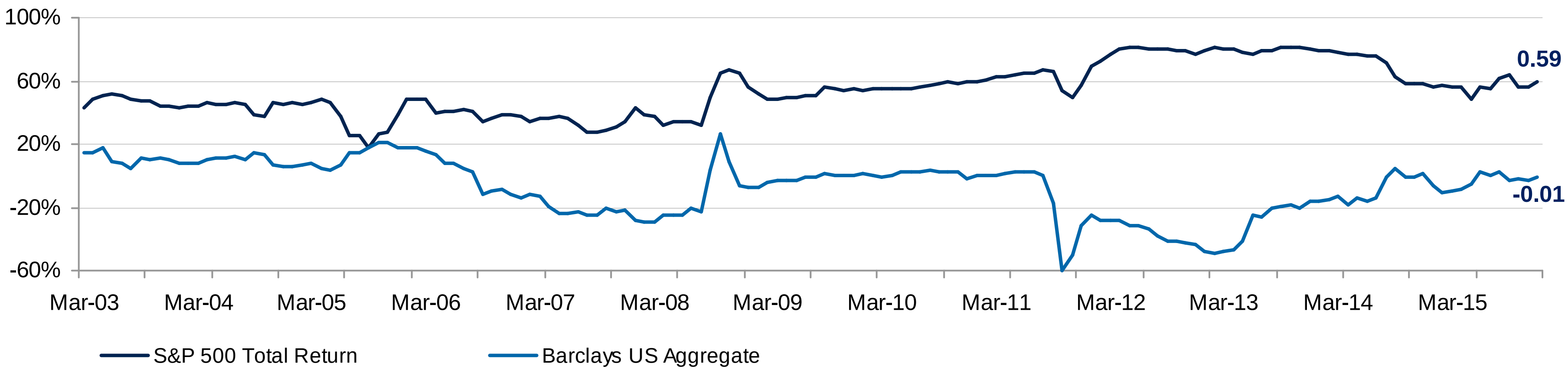
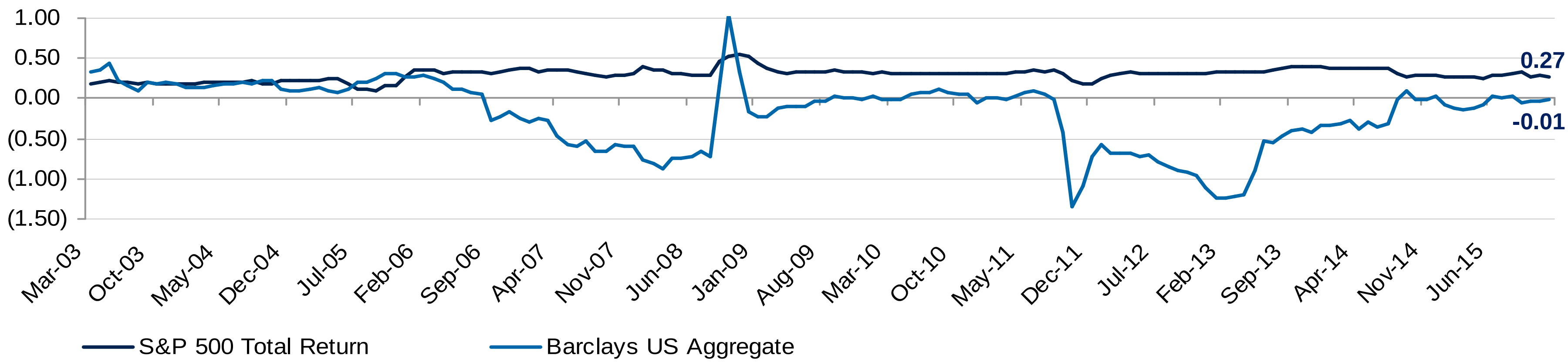
Representative Account – Correlations and Betas

3 Year Rolling Correlations to Representative Account



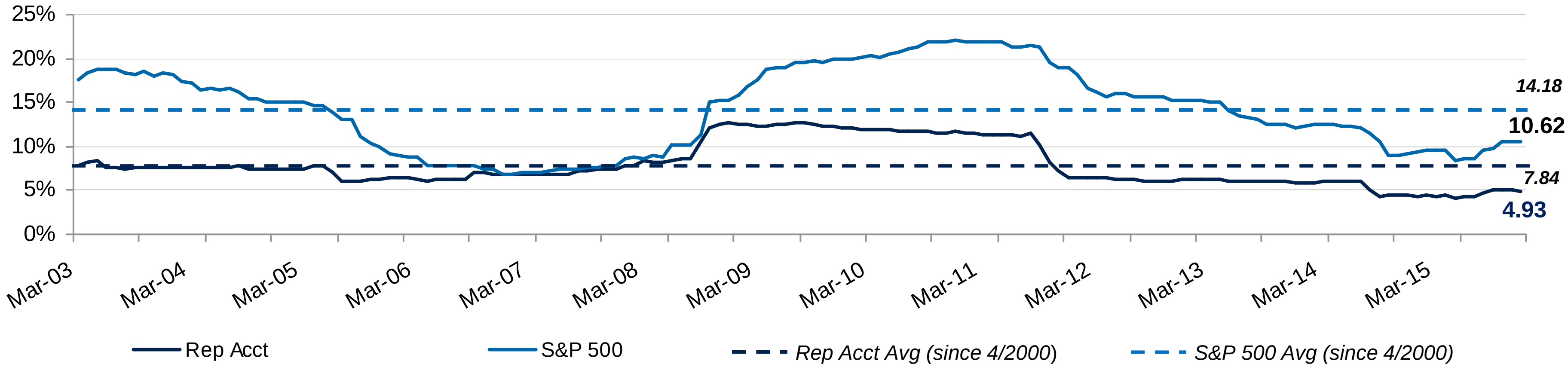
3 Year Rolling Betas to Representative Account



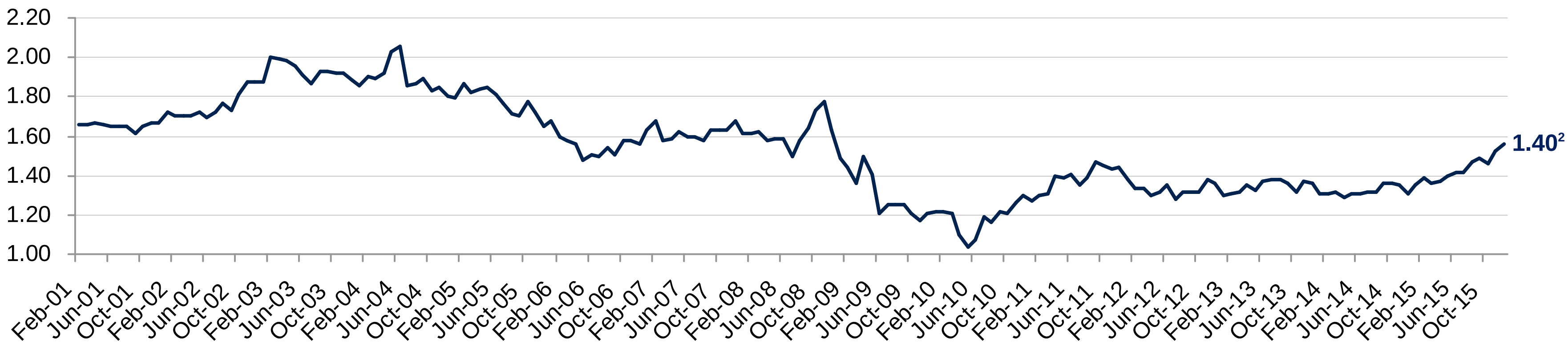
Source: AIP unaudited. Data as of 12/31/2015. **Past performance is not indicative of future results.**
The results above are not intended to predict the performance of any specific investment. Indices are unmanaged and their returns do not include sales charges or fees, which would lower performance. It is not possible to invest directly in an index. Index performance is not illustrative of fund performance.

Representative Account – Volatility and Leverage

Rolling 3 Year Volatility



Leverage



1. Source: AIP unaudited. Data as of 12/31/2015.
2. Leverage as of January 2016.

Past performance is not indicative of future results. The results above are not intended to predict the performance of any specific investment. Indices are unmanaged and their returns do not include sales charges or fees, which would lower performance. It is not possible to invest directly in an index. Index performance is not illustrative of fund performance.

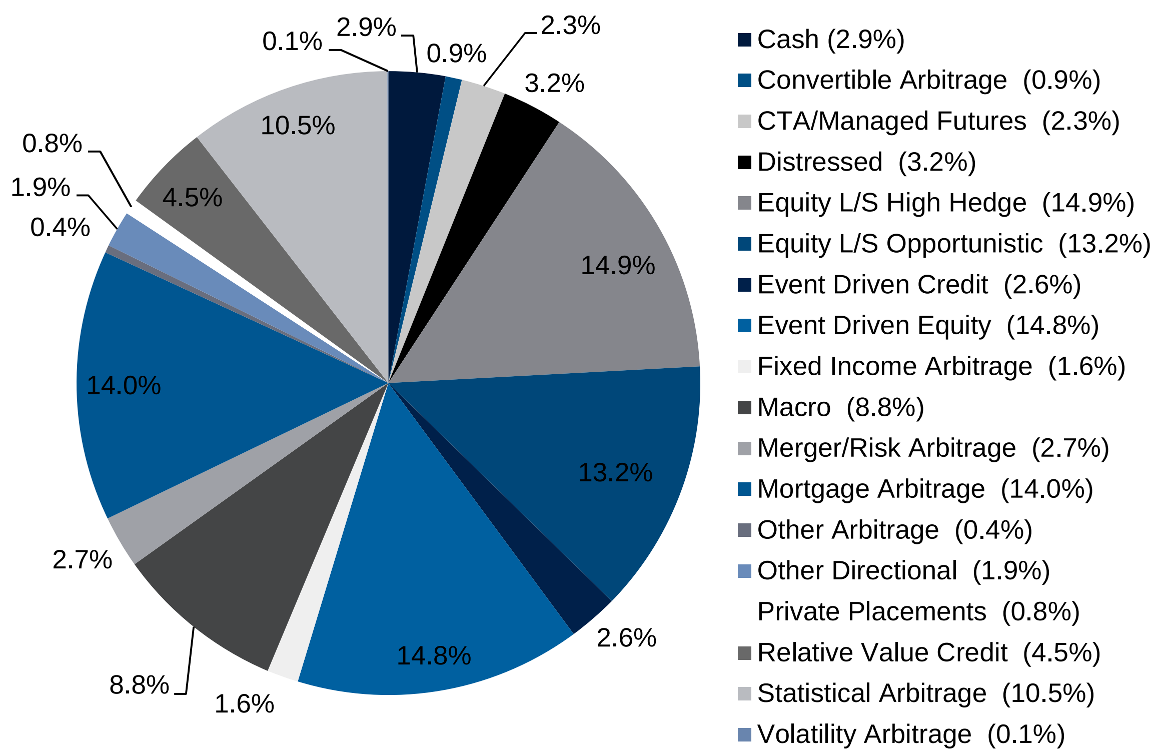
Composition of Representative Account Portfolio

Data as of December 31, 2015

Holdings Composition

- Manager count: 41 funds
- Geography
  - 66% North America
  - 26% Global Developed
  - 8% Emerging Markets
- Largest allocation: 7.3%
- Top 5 allocations: 20.4%

Strategy Composition



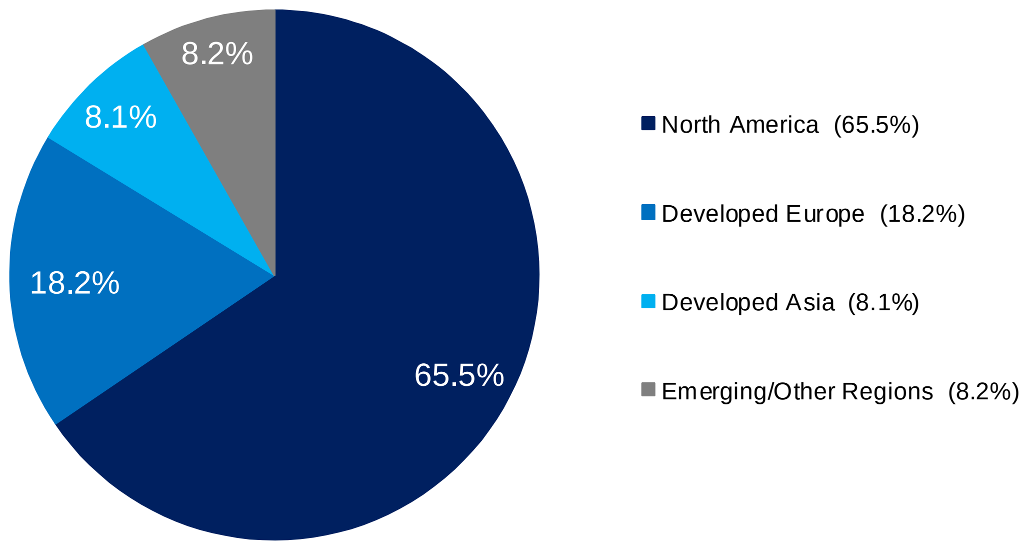
1. Source: AIP unaudited.
2. Estimated strategy allocation of multi strategy funds, using data provided by these funds and, when not available, internal calculated estimates. Totals may not add to 100% due to rounding.

Portfolio Geographic Diversification[1]

Data as of December 31, 2015

Geographic changes in Q4-15:

• Developed Europe	+0.65%
• North America	+0.59%
• Developed Asia	-0.01%
• Emerging/Other Regions	-1.23%



1. Source: AIP unaudited.

Portfolio Holdings

Rep Acct Holdings	Strategy	Rep Acct (% of NAV)
Fund 1	Multi Strategy	7.31
Fund 2	Other Directional	4.11
Fund 3	Macro	3.03
Fund 4	Mortgage Arbitrage	2.98
Fund 5	Equity L/S High Hedge	2.95
Fund 6	Equity L/S High Hedge	2.94
Fund 7	Equity L/S Opportunistic	2.83
Fund 8	Macro	2.82
Fund 9	Event Driven Equity	2.57
Fund 10	Statistical Arbitrage	2.55
Fund 11	Event Driven Equity	2.47
Fund 12	Statistical Arbitrage	2.19
Fund 13	Equity L/S Opportunistic	2.13
Fund 14	Relative Value Credit	2.08
Fund 15	Multi Strategy	2.06
Fund 16	Macro	1.99
Fund 17	Multi Strategy	1.97
Fund 18	Equity L/S High Hedge	1.95
Fund 19	Equity L/S High Hedge	1.91
Fund 20	Relative Value Credit	1.89
Fund 21	Event Driven Equity	1.88
Fund 22	Mortgage Arbitrage	1.88
Fund 23	Statistical Arbitrage	1.83
Fund 24	Statistical Arbitrage	1.81
Fund 25	Equity L/S Opportunistic	1.75
Fund 26	Event Driven Equity	1.68
Fund 27	Mortgage Arbitrage	1.66
Fund 28	Mortgage Arbitrage	1.65
Fund 29	Event Driven Equity	1.63
Fund 30	Mortgage Arbitrage	1.54
Fund 31	Mortgage Arbitrage	1.46
Fund 32	Event Driven Equity	1.39
Fund 33	Event Driven Credit	1.39
Fund 34	Macro	1.38

Rep Acct Holdings	Strategy	Rep Acct (% of NAV)
Fund 35	Equity L/S Opportunistic	1.37
Fund 36	Equity L/S High Hedge	1.36
Fund 37	Event Driven Equity	1.31
Fund 38	Event Driven Equity	1.20
Fund 39	Multi Strategy	1.17
Fund 40	Equity L/S High Hedge	1.06
Fund 41	Merger/Risk Arbitrage	1.04
	Secondaries	4.50
	Co-Investments	1.70
	Pending Redemptions	2.50
	Toehold Positions	2.24
	Cash	2.92
		100.00

1. Source: AIP unaudited. Data as of 12/31/2015. Totals may not add to 100% due to rounding.

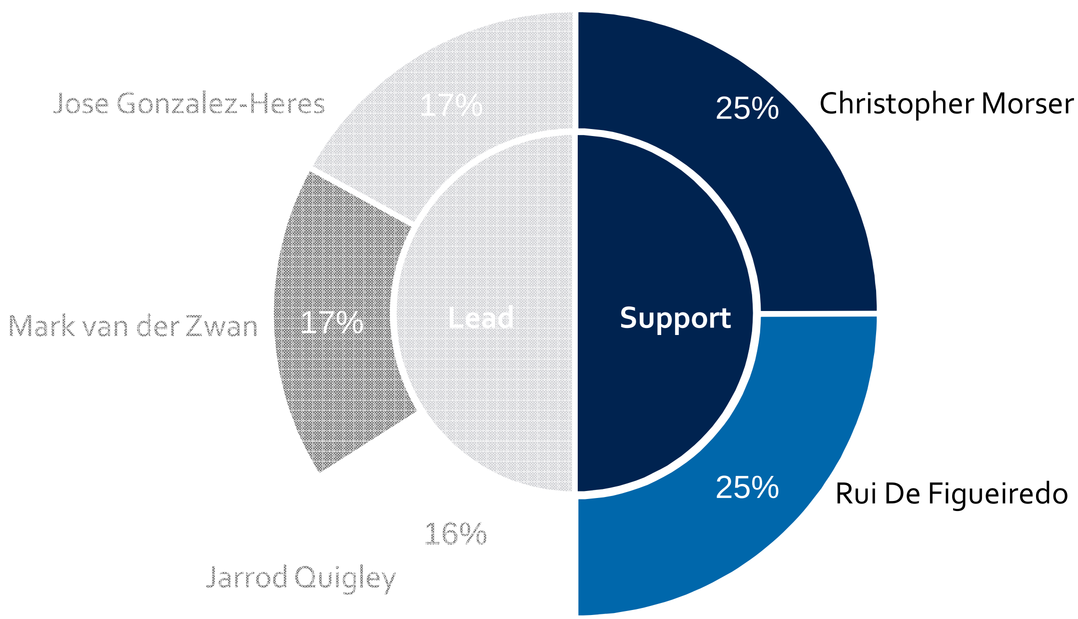
Section 5

- Policy Development
- Board Education
- General Consultant Interface

AIP's Advisory Team Approach for FCERA

Advisory and Consultant Support

Primary and Secondary Roles and Responsibilities



A Collaborative and Dynamic Approach

Integrating critical components of hedge fund consulting and customization

Dedicated portfolio manager and advisor coordinates all the activities with the client throughout the process.

Define → Design → Execute → Manage → Monitor

Define

Objectives

- Returns
- Risk Tolerance
- Time Horizon
- Liquidity

Constraints

- Governance
- Regulatory
- Legal
- Fiduciary

Preferences

- Benchmarking
- Process

Protocols

Design

Hedge Fund

- Policy Statements
- Structure

Analysis

- Holdings
- Scenario
- Stress Tests

Portfolio

- Proposal
- Manager-specific Recommendation

Integration

- Other holdings
- Consultant

Execute

Agreements

- Contracts
- Limits

Decision Making

- Recommendations
- Approval process

Education / Updating

- Manager-specific
- Strategy-specific
- Portfolio-specific
- Hedge Funds
- Advice

Investment Programs

- Initial
- Rebalancing

Manage / Monitor

Risk / Returns

- Manager
- Strategy
- Portfolio
- Outliers
- Changes
- Key events

Policy Adherence

- Objectives
- Constraints
- Limits
- Soft considerations

Decision Making

- Recommendation
- Approval
- Support
- Timing

Administration

- Recommendations
- Reporting
- Accounting
- Corporate Actions
- Updating

For illustrative purposes only.

Understand FCERA's Objectives

Through in-depth upfront work AIP gains an understanding of needs and constraints[1]

FCERA's Investment Targets

Key Objectives	
Return Targets	• Required rate of return + risk free • Peer group • Benchmark or hurdle rate
Risk Exposures	• Volatility ranges • Maximum drawdown tolerance • Beta exposure to equity, rates or credit
Concentration	• Maximum and minimums • Size and scaling • Diversifying concentrated holding
Geographic Considerations	• Global focus • Developed vs. emerging • Regional emphasis
Interactions with Other Holdings	• Other hedge funds • Asset allocation decisions • Overlap

FCERA's Unique Requirements

Constraints / Implementation Considerations	
Ownership / Governance Conditions	• Ownership • Control • Decision making
Liquidity Requirements	• Ranges of liquidity over time • Minimum need • % > 2yrs
Administration and Servicing Needs	• Back / middle office • Reporting and accounting • Information exchange
Reporting Needs	• Board requirements • FCERA staff requests
Other	• Transparency • Consolidation / aggregation • 3rd party asset verification

These statements reflect the views of Morgan Stanley as of the date hereof and not as of any future date.
1. The list above is not exhaustive and client may have other objectives and constraints.

Hedge Fund Policy Design

Offer Hedge Fund Specific Policies

Fresno IPS Investment Philosophy and Objectives

Fresno Investment Philosophy: "…Balance the objective of protecting the Fund corpus and protecting purchasing power against erosion by inflation, while at the same time incurring the risk necessary to earn adequate returns required to satisfy the ongoing financial obligations of the fund…This requires a careful understanding of risk and return trade-offs….recognize the severe consequences associated with a large loss of Fund corpus."

Fresno Investment Objectives: "…The paramount objective is to satisfy the financial obligations of the Fund." Consistent with this, specific objectives in implementation are as follows:

Fund benefits: Earn a long term rate of return that will pay all promised benefits.

Growth of capital: Emphasize long term growth of principal while avoiding excessive downside risk. Short term volatility should be consistent with the volatility of a comparable risk benchmark.

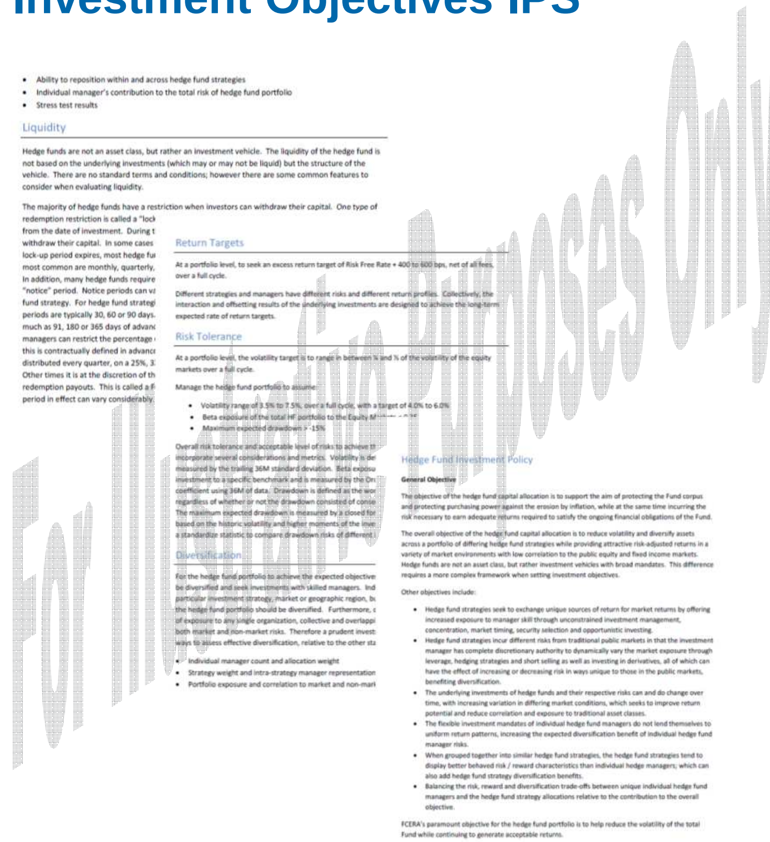
Purchasing power: Achieve returns in excess of inflation to preserve purchasing power.

Liquidity: Assure adequate funds are available to meet near term obligations.

Long term perspective: Earn a time weighted total return in excess of the benchmarks established, net of fees

1. **Investment goals, policies, guidelines and procedures**
2. **Compliance monitoring of investment managers**
3. **Performance measurement duties**
4. **Proxy voting policies and guidelines**
5. **Risk management strategies**

Propose Formalized Hedge Fund Investment Objectives IPS



- Ability to reposition within and across hedge fund strategies
- Individual manager's contribution to the total risk of hedge fund portfolio
- Stress test results

Liquidity

Hedge funds are not an asset class, but rather an investment vehicle. The liquidity of the hedge fund is not based on the underlying investments (which may or may not be liquid) but the structure of the vehicle. There are no standard terms and conditions; however there are some common features to consider when evaluating liquidity.

The majority of hedge funds have a restriction when investors can withdraw their capital. One type of redemption restriction is called a "lock
from the date of investment. During t
withdraw their capital. In some cases
lock-up period expires, most hedge fu
most common are monthly, quarterly,
In addition, many hedge funds require
"notice" period. Notice periods can va
fund strategy. For hedge fund strategi
periods are typically 30, 60 or 90 days.
much as 91, 180 or 365 days of advanc
managers can restrict the percentage
this is contractually defined in advanc
distributed every quarter, on a 25%, 3
Other times it is at the discretion of th
redemption payouts. This is called a F
period in effect can vary considerably.

Return Targets

At a portfolio level, to seek an excess return target of Risk Free Rate + 400 to 600 bps, net of all fees, over a full cycle.

Different strategies and managers have different risks and different return profiles. Collectively, the interaction and offsetting results of the underlying investments are designed to achieve the long-term expected rate of return targets.

Risk Tolerance

At a portfolio level, the volatility target is to range in between ⅓ and ½ of the volatility of the equity markets over a full cycle.

Manage the hedge fund portfolio to assume:

- Volatility range of 3.5% to 7.5%, over a full cycle, with a target of 4.0% to 6.0%
- Beta exposure of the total HF portfolio to the Equity M
- Maximum expected drawdown > -15%

Overall risk tolerance and acceptable level of risks to achieve th
incorporate several considerations and metrics. Volatility is de
measured by the trailing 36M standard deviation. Beta exposu
investment to a specific benchmark and is measured by the Or
coefficient using 36M of data. Drawdown is defined as the wor
regardless of whether or not the drawdown consisted of conse
The maximum expected drawdown is measured by a closed for
based on the historic volatility and higher moments of the inve
a standardize statistic to compare drawdown risks of different

Diversification

For the hedge fund portfolio to achieve the expected objective
be diversified and seek investments with skilled managers. Ind
particular investment strategy, market or geographic region, bu
the hedge fund portfolio should be diversified. Furthermore, c
of exposure to any single organization, collective and overlappi
both market and non-market risks. Therefore a prudent invest
ways to assess effective diversification, relative to the other sta

- Individual manager count and allocation weight
- Strategy weight and intra-strategy manager representation
- Portfolio exposure and correlation to market and non-mark

Hedge Fund Investment Policy

General Objective

The objective of the hedge fund capital allocation is to support the aim of protecting the Fund corpus and protecting purchasing power against the erosion by inflation, while at the same time incurring the risk necessary to earn adequate returns required to satisfy the ongoing financial obligations of the Fund.

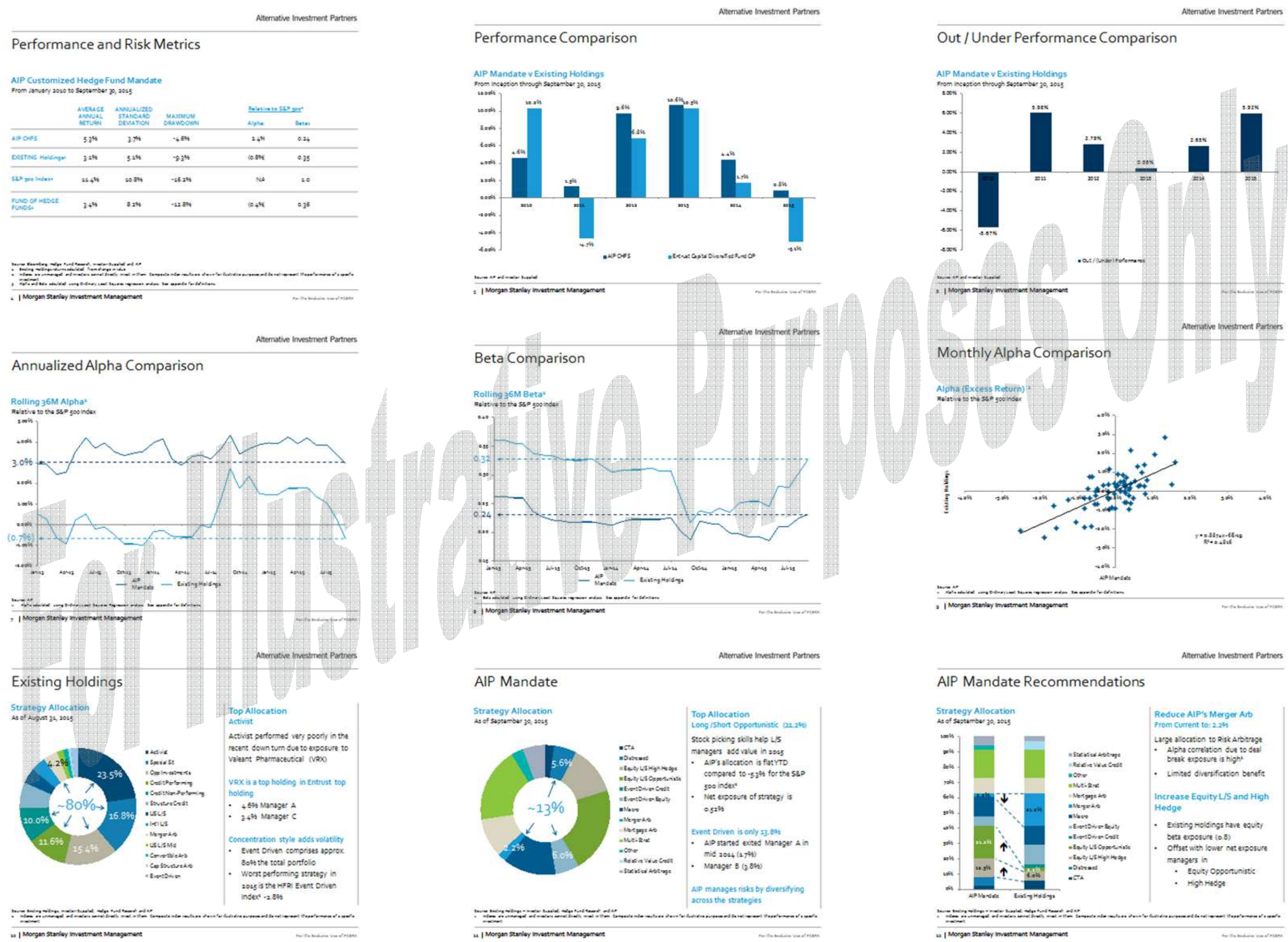
The overall objective of the hedge fund capital allocation is to reduce volatility and diversify assets across a portfolio of differing hedge fund strategies while providing attractive risk-adjusted returns in a variety of market environments with low correlation to the public equity and fixed income markets. Hedge funds are not an asset class, but rather investment vehicles with broad mandates. This difference requires a more complex framework when setting investment objectives.

Other objectives include:

- Hedge fund strategies seek to exchange unique sources of return for market returns by offering increased exposure to manager skill through unconstrained investment management, concentration, market timing, security selection and opportunistic investing.
- Hedge fund strategies incur different risks from traditional public markets in that the investment manager has complete discretionary authority to dynamically vary the market exposure through leverage, hedging strategies and short selling as well as investing in derivatives, all of which can have the effect of increasing or decreasing risk in ways unique to those in the public markets, benefiting diversification.
- The underlying investments of hedge funds and their respective risks can and do change over time, with increasing variation in differing market conditions, which seeks to improve return potential and reduce correlation and exposure to traditional asset classes.
- The flexible investment mandates of individual hedge fund managers do not lend themselves to uniform return patterns, increasing the expected diversification benefit of individual hedge fund manager risks.
- When grouped together into similar hedge fund strategies, the hedge fund strategies tend to display better behaved risk / reward characteristics than individual hedge managers; which can also add hedge fund strategy diversification benefits.
- Balancing the risk, reward and diversification trade-offs between unique individual hedge fund managers and the hedge fund strategy allocations relative to the contribution to the overall objective.

FCERA's paramount objective for the hedge fund portfolio is to help reduce the volatility of the total Fund while continuing to generate acceptable returns.

Analysis of FCERA's Existing HF Holdings and AIP



Design Portfolio

Compile and provide a sample portfolio proposal

Proposed Portfolio: Performance Summary

Pro Forma Returns of Portfolio Compared to Other Indices

	As of Date	1M	1Q	1Yr	3Yr*	5Yr*
Portfolio	Sept-14	X.X%	X.X%	X.X%	X.X%	X.X %
S&P500	Sept-14	X.X%	X.X%	X.X %	X.X%	X.X %
Barclays Agg. Bond Index	Sept-14	X.X %	X.X %	X.X %	X.X%	X.X %
HFRX Global HF	Sept-14	X.X%	X.X%	X.X%	X.X%	X.X%
HFRI FoF Composite	Sept-14	X.X%	X.X%	X.X%	X.X%	X.X%

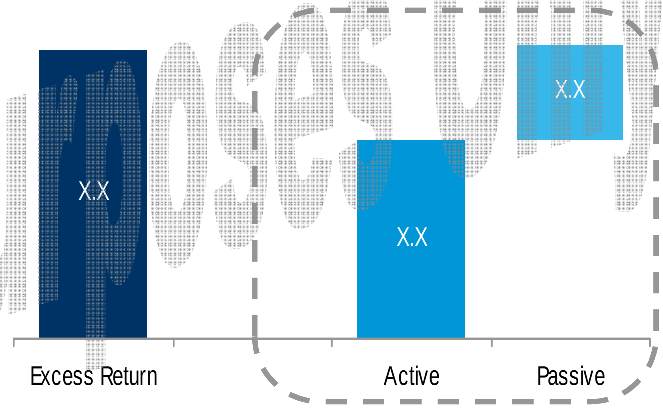
***Annualized**

Indices are unmanaged portfolios of securities and do not represent the performance of any specific investment. Investors cannot invest directly in an index.

Pro Forma Risk Statistics

Annual Volatility	X.X%
Sharpe Ratio	X.X
Max. Drawdown	X.X%
Average Shortfall	X.X%
Frequency of Underperforming Cash	X.X%
Frequency of Loss	X.X%

Portfolio Return Sources



	Excess Return	Active Return	Passive Return
Return	X.X%	X.X%	X.X%
Risk	X.X%	X.X%	X.X%
Efficiency	X.X	X.X	X.X

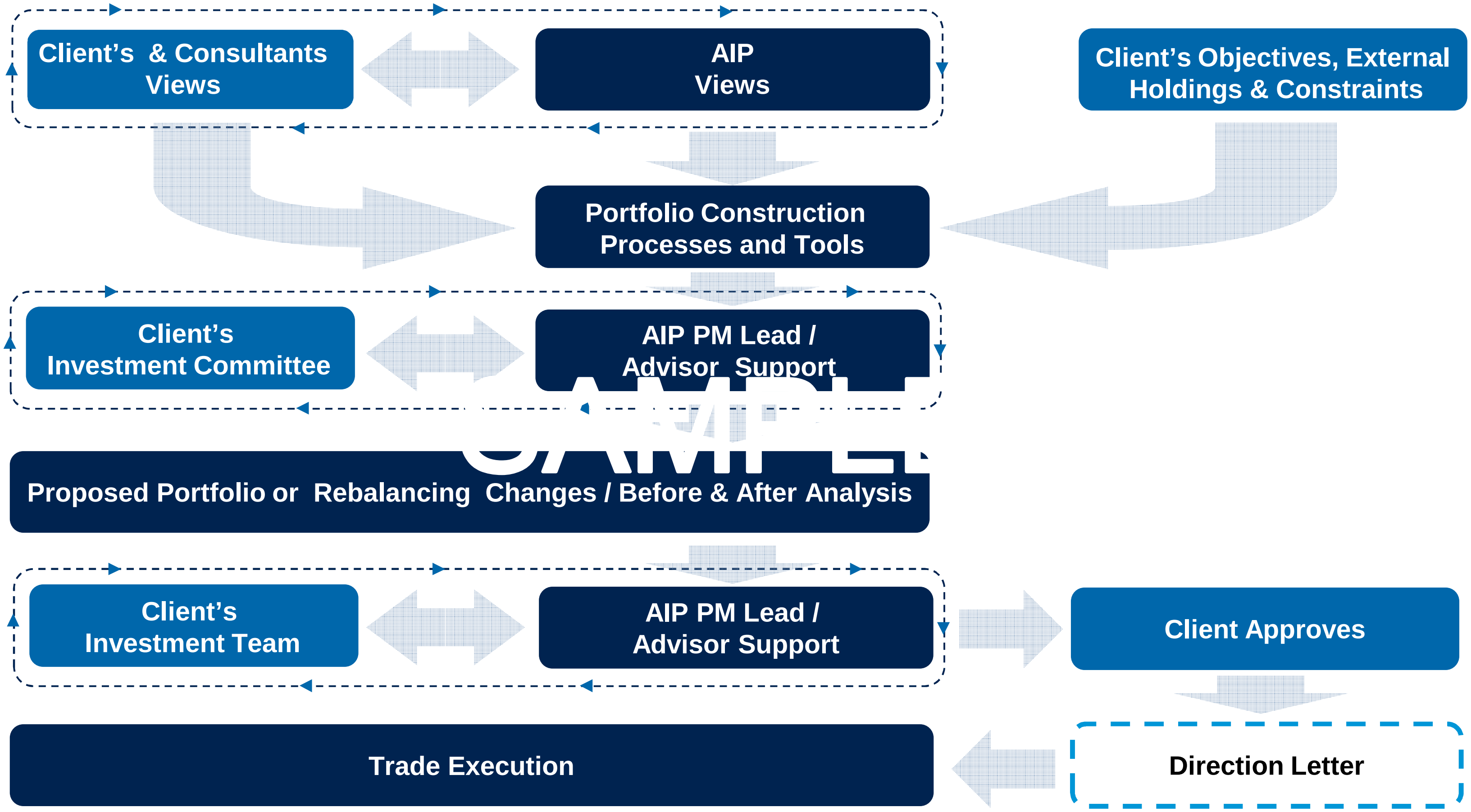
For Illustrative Purposes only.

Execute Approved Plan

Formalize Decision Making	• Determine roles and responsibilities • Agree to investment parameters • Decide required metrics for evaluation – Benchmarking • Establish a protocol for updating, rebalancing and reviews • Determine appropriate funding schedule
Coordinate Seamless Account Management	• Complete onboarding process and capital transfers – AIP operations • Execute subscription and redemptions process - AIP middle office team • Manage accounting and recordkeeping - AIP back office team or 3rd Party Custodian

Added Steps for Non-Discretionary Approval Process

Incorporating Hedge Fund related Client-Specific Procedures

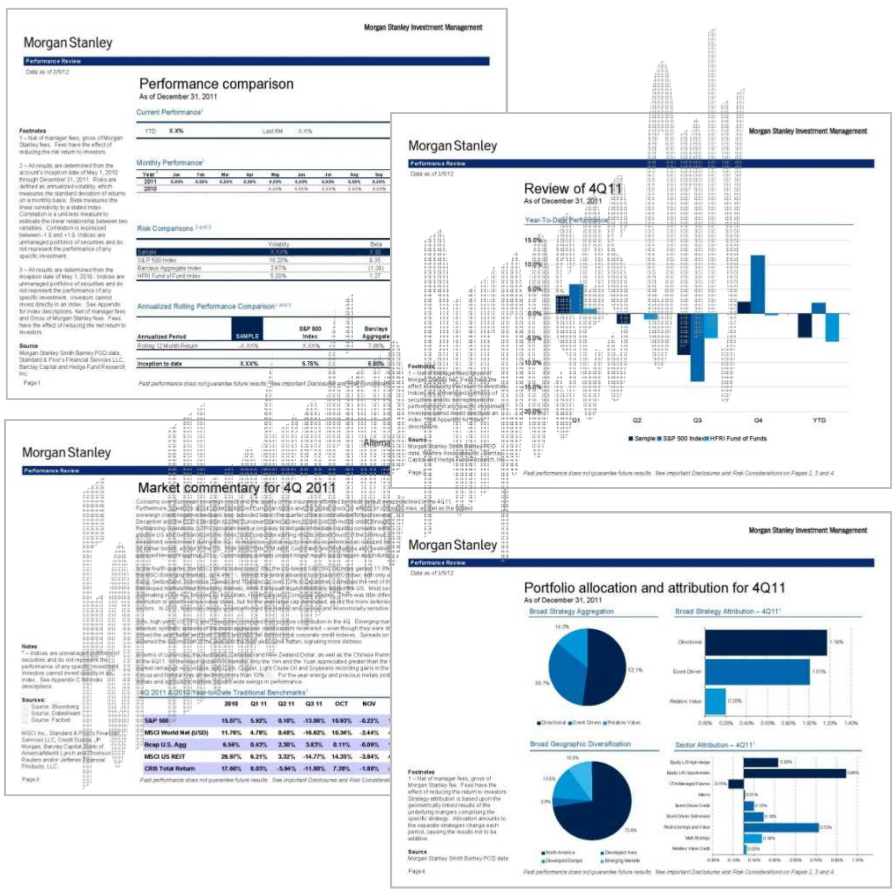


Capital in account by 23rd of every month

Signed by 10th of every month

Comprehensive Account Reviews

Access to Experienced, Hedge Fund Investment Professionals



PORTFOLIO DISCUSSIONS

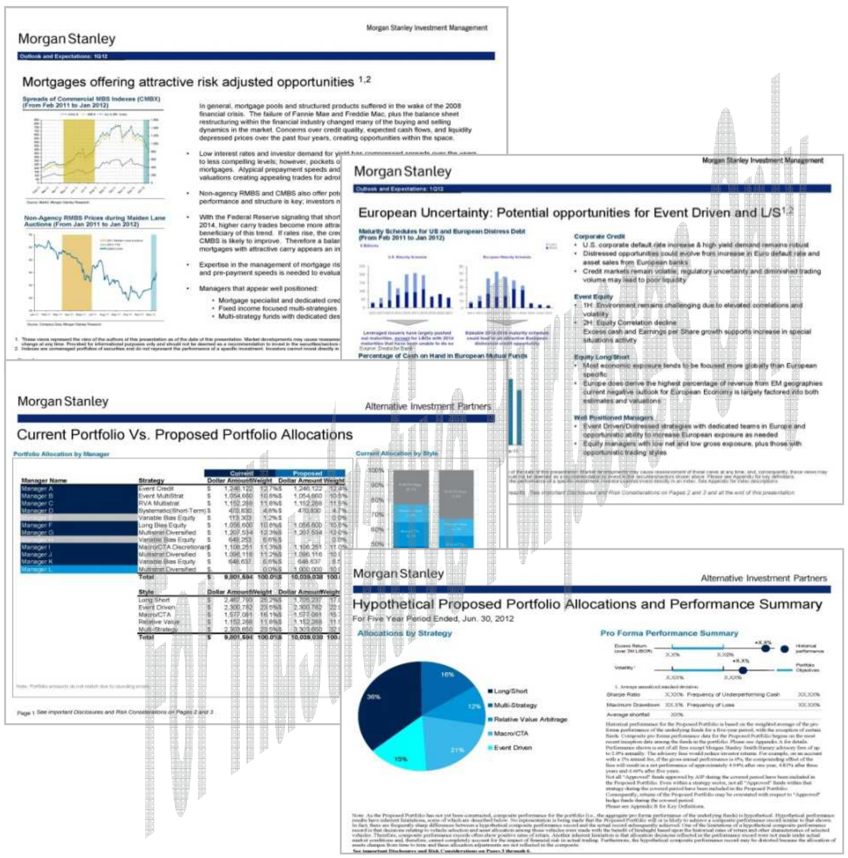
Ongoing access to investment and portfolio specialists

- **CURRENT AND LONG-TERM PERFORMANCE REVIEW:** strategy and region analysis over variable time periods
- **PERFORMANCE BENCHMARK COMPARISONS:** specific benchmark analysis over user determined evaluation periods
- **MARKET CONTEXT AND HEDGE FUND INDUSTRY PERFORMANCE:** overview of quarterly, strategy-specific performance drivers and detractors
- **STRATEGY ATTRIBUTION DISCUSSION:** allocation comparisons over user determined evaluation periods
- **PORTFOLIO HOLDINGS REVIEW:** manager by-manager updates

For illustrative purposes only.

Ongoing Outlook and Rebalancing Discussions

Deploying AIP Hedge Fund Team's Collective Knowledge, Expertise and Tools to Clients

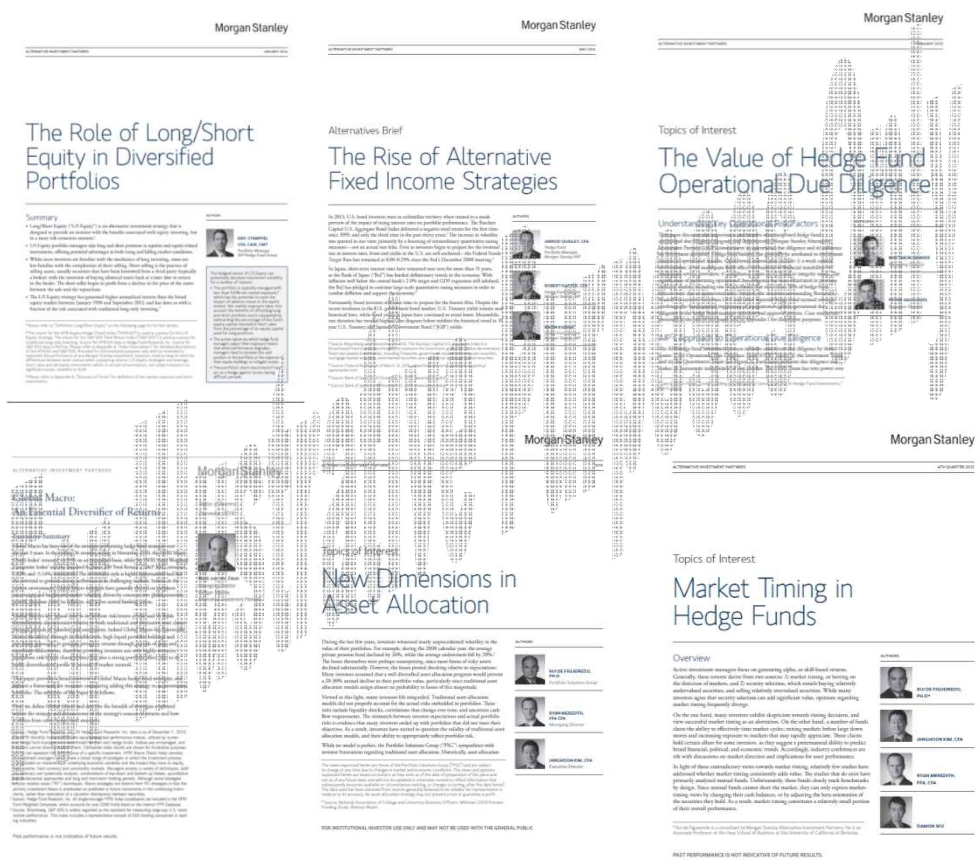


- **MARKET UPDATES AND INDUSTRY** developments: robust *quarterly Hedge Fund Review and Outlook* calls on strategy and industry trends and performance
- **AIP'S TACTICAL PERSPECTIVES:** updates on current areas of opportunity and the impact on clients' portfolio
- **THOROUGH INVESTMENT OBJECTIVE REVIEW:** ongoing discussions on client's mandate, preferences and constraints to ensure understanding of objectives
- **SUMMARY STATISTICS** target ranges of risk / return and hypothetical portfolio positioning
- **KEY PRO FORMA STATISTICS:** While past results are no guarantee of future results, hypothetical analyses help present a clearer picture of recommendations and changes in the portfolio

For illustrative purposes only.

Continuous Education

AIP Hedge Fund Focused Research



RECENT WHITE PAPERS

- Intro to Alpha Capture *(June 2015)*
- Asia Pacific Property Investing – Challenges and Opportunities *(May 2015)*
- The Benefits of Investing in Small to Mid-Size/Emerging Fund Managers *(February 2015)*
- Sovereign Fixed Income Relative Value *(January 2015)*
- Investing in Emerging Manager Hedge Funds *(September 2014)*
- The Eurozone – A Hard Look at the Real Estate Opportunity *(July 2014)*
- Illiquid Investing for Defined Benefit Pension Plans *(July 2014)*
- The Rise of Alternative Fixed Income Strategies *(May 2014)*
- The Result/Volatility Trade-Off of Distressed Corporate Debt Portfolios *(March 2014)*
- Private Equity Fund Restructurings *(February* 2014)
- The Return/Volatility Trade-Off of Distressed Corporate Debt Portfolios *(December 2013)*
- Real Estate Debt Investment Management Performance & Selection *(November 2013)*
- Investment Opportunities in the U.S. Residential Housing Market *(March 2013)*
- The Value of Hedge Fund Operational Due Diligence *(February 2013)*
- Market Timing in Hedge Funds *(November 2012)*
- Real Estate Investing in Emerging Markets *(September 2012)*
- Inflation-Linked Portfolio Solutions *(June 2012)*
- Private Equity Secondary Funds: Opportunity Through Full Market Cycles *(October 2011)*

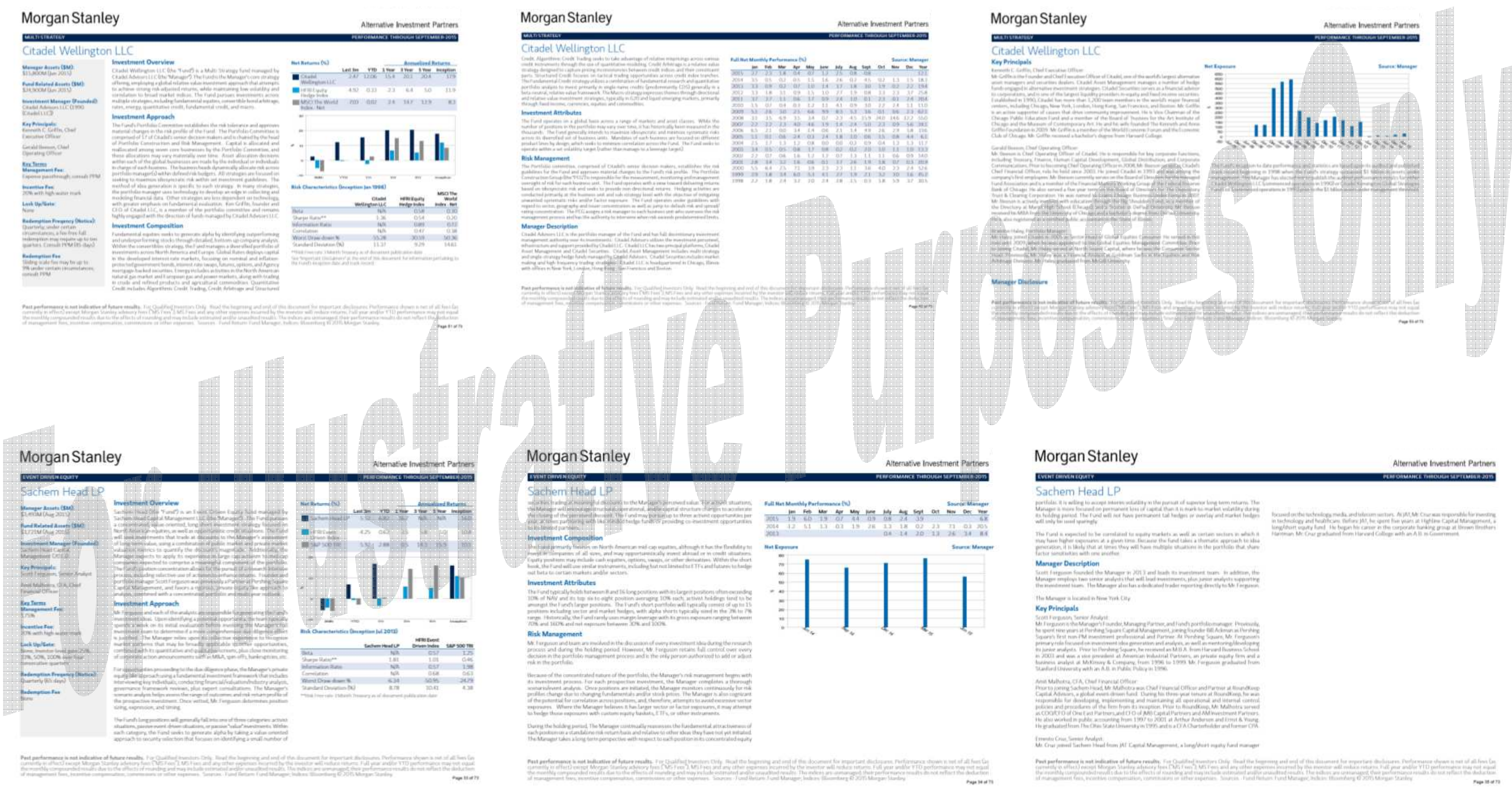
For illustrative purposes only.

Teach-Ins and Hedge Fund Topics of Interest

Various Levels of Sophistication

Sample Manager Summaries for FCERA's Review

High Level Manager Summary

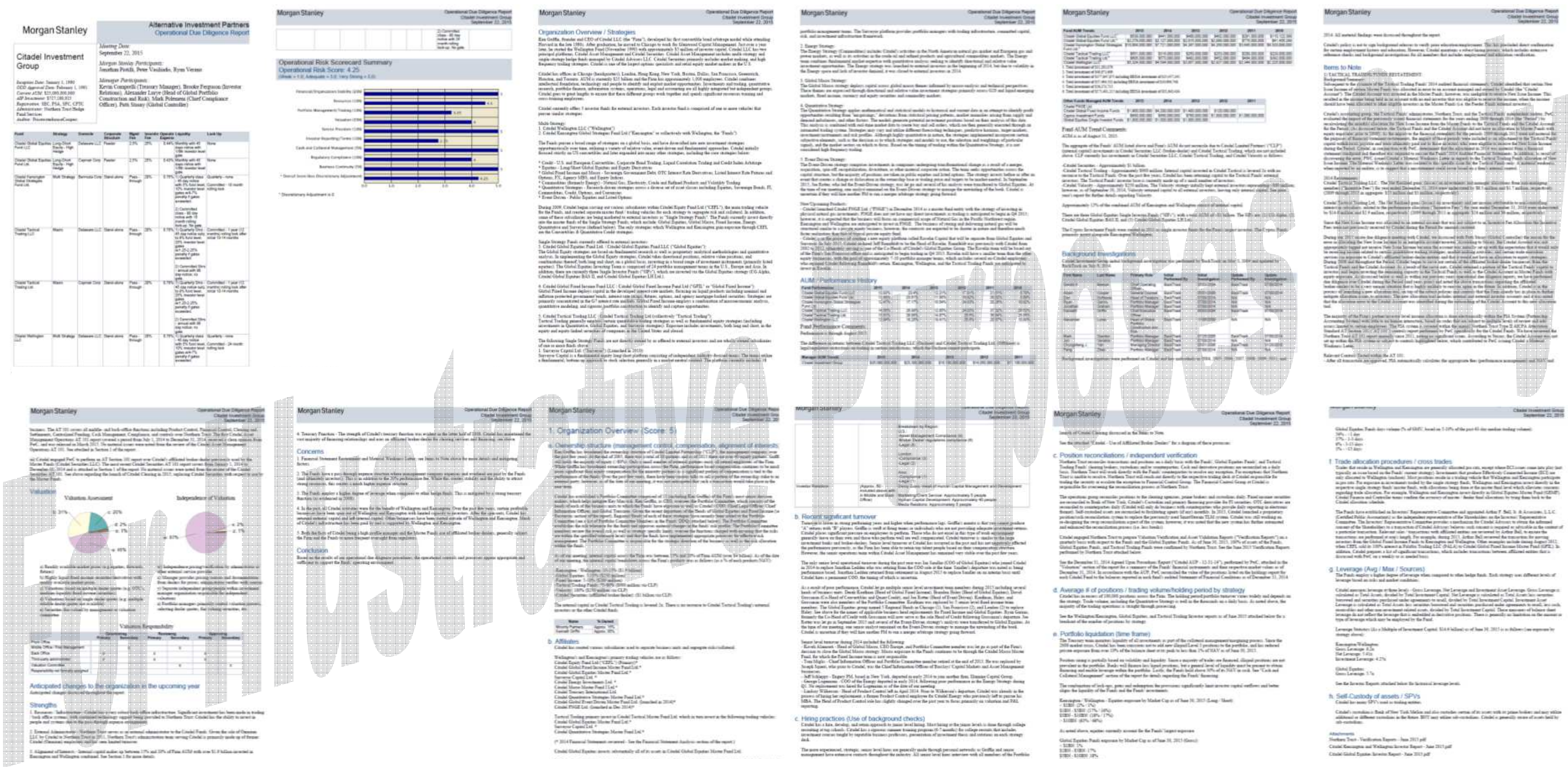


Sample Manager Investment Due Diligence Reports

Detailed Reports for In-Depth Investment Reviews

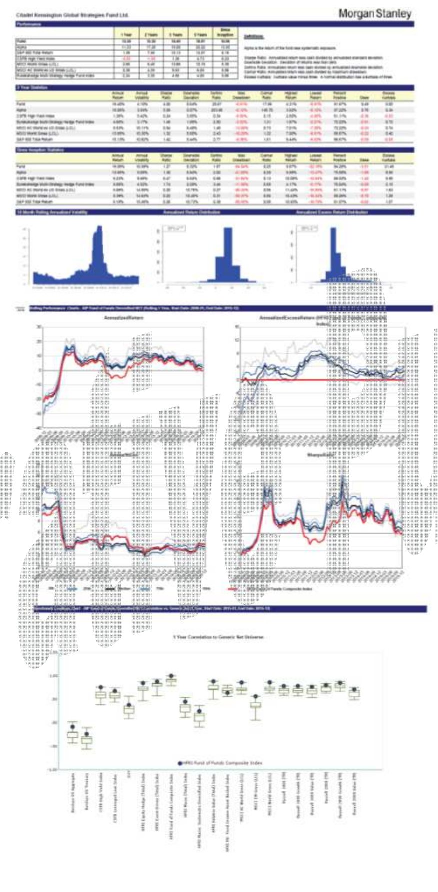
Sample Manager Operational Due Diligence Reports

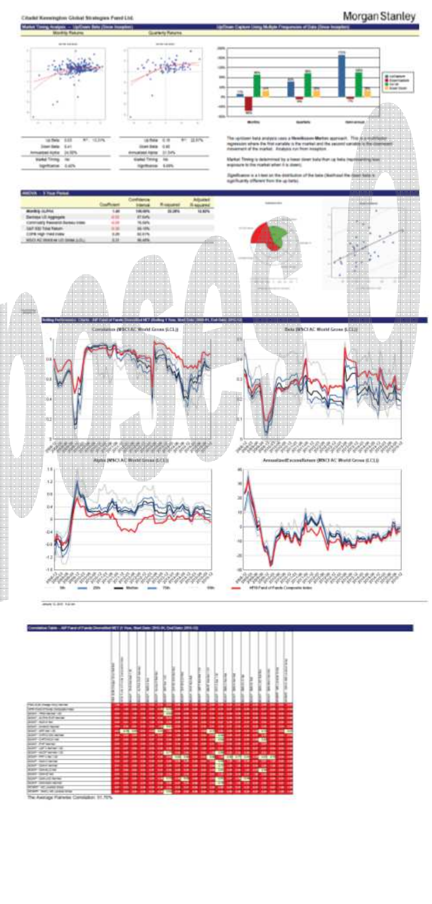
Detailed Reports on Operational Reviews and Headline Risk Considerations



Sample Quantitative Reports

Varying Levels of Manager and Portfolio Analysis

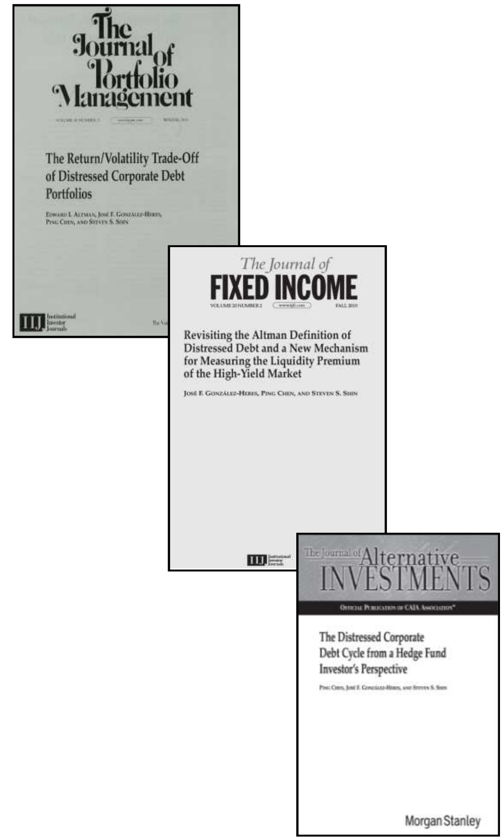




Education

Educational Sessions:

- Asian sovereign wealth fund
- Middle Eastern sovereign wealth fund
- Asian Central Bank
- U.S. corporate pension fund
- U.S. public pension fund
- AIP lectures at Columbia, NYU and Yale business schools



As of December 31, 2015.

Section 6 Fees

A Comparison of Discretionary vs. Non-Discretionary Hedge Fund Services…

- **Discretionary and non-discretionary advisory services are offered – it's Fresno's choice – the approach would be the same:** AIP is happy to work with FCERA on either a full discretion or a non-discretionary basis. Regardless of choice, the AIP approach to hedge fund program policy development, board education and interface with your general consultant would be the same, as would the approach to hedge fund manager selection and portfolio construction.

- **Accounting and record keeping – turn key either way:** Regardless of the selection of full discretion or non-discretionary services, FCERA staff would **not** be administratively burdened. AIP (or custodian) would handle all investment subscription documents, valuation, accounting, and middle office functions, as well as portfolio monitoring, ongoing operational due diligence, and portfolio rebalancing activities. AIP would handle the typical interface of NAV, performance and cash flows with your global custodian. Only minimal oversight would be required from FCERA staff.

- **Hedge Fund manager selection and portfolio construction – bearing responsibility for the decisions made:** Under a full discretion relationship AIP would do the all work and bear all the responsibility for all decisions made with regard to hedge fund manager selection, portfolio construction, ongoing due diligence and risk control. In contrast to this, under a non-discretionary relationship, FCERA staff and board time would be required to understand individual AIP recommendations, and the FCERA board would ultimately make and be responsible for each decision made.

- **Fees:** Following from the prior bullet, one may look at the difference in fees charged between discretionary and non-discretionary services, as representing a premium for shouldering the responsibility for the decisions made in running the hedge fund program (i.e. a premium earned for assuming this risk as a prudent expert).

Fees

- **<u>Option #1 - Non-discretionary Services</u>:** Under a non-discretionary hedge fund services arrangement, AIP would make recommendations <u>only</u> to the FCERA board with regard to hedge fund manager selection, portfolio construction and all other RFP *Scope of Work* requirements. FCERA would retain responsibility for the decisions made. The below fee includes the cost of accounting and administration services.

Flat fee of **40 bps**/per annum

- **<u>Option #2 – Full discretion Services</u>:** Under a full discretion hedge fund services arrangement, AIP would have authority and with this bear the responsibility for all decisions. We would report regularly to the FCERA board, as do your current investment managers, with regard to performance, holdings, risk and portfolio positioning. AIP would perform on all the RFP *Scope of Work* requirements.

Incentive Based Fees:

$AUM (min.)	$100MM	$150MM	$200MM	$300MM
No Hurdle Rate				
Base Fee	65 bps	55 bps	50 bps	45 bps
+ Incentive Fee of	5%	5%	5%	5%
Hurdle Rate: 2% over 3M T-Bills				
Base Fee	75 bps	65 bps	60 bps	55 bps
Incentive Fee	5%	5%	5%	5%

Asset Based Flat Fee:

$AUM (min.)	$100MM	$150MM	$200MM	$300MM
Annual Fee	90 bps	80 bps	75 bps	75 bps

Form of Account Choices…

- **<u>SMA and Fund of One account structures</u>:** at $100MM or more, typically become cost effective.

- **<u>SMA</u>:** Were an SMA chosen as the form of account, asset safe keeping, administrative and related custodial services would typically be handled by the custodian already engaged by FCERA, or by retaining a specialty custodian.

- **<u>Fund of One</u>:** Another form of account is the fund of one structure. Under this structure a fund (i.e. trust entity) is individually created for FCERA, and FCERA becomes the sole investor in the fund. This structure has the advantage of direct ownership of the underlying HF investments, and with this sole control. For U.S. tax exempt investors, fund of one structures commonly based in the Caymen Islands (British rule of law) offer potential tax advantages (i.e. UBTI). The below provides an estimated cost of establishing such a vehicle and is based upon best practices. <u>Costs vary, based on scope of work and quality of vendor employed</u>. AIP would welcome the opportunity to discuss FCERA preferences.

$AUM (min.)	$100MM	$150MM	$200MM	$300MM
	All fees below are in bps/p.a.			
Administrative (assumes use of ext 3rd party provider)	4.81	4.97	4.77	4.73
Audit	3.90	2.60	1.95	1.11
Legal Fees	0.75	0.50	0.38	0.21
Other (including use of independent board)	6.22	4.78	4.05	3.10
Additional start-up costs (not included in above)	-	-	-	-
Legal Fees (Amortize over 5yrs)	2.50	1.67	1.25	0.71
Total estimated expenses – years 1-5	**18.18**	**14.33**	**12.39**	**9.87**
Total estimated expenses – ongoing	**15.68**	**12.67**	**11.14**	**9.15**

<u>Note:</u> above costs are estimates and may vary based on the specifics of the service engaged and as market conditions change.

Section 7

Why AIP?

Why AIP?

- ***Discretionary and Non-Discretionary Services are offered – It is Fresno's choice*** **–** The approach would be the same. The difference is in the level of fiduciary responsibility assumed by Fresno.
- ***15 Year Track Record Managing a Similar Mandate*** **–** $800 million, institutional DB plan, full discretion, serving as an ERISA fiduciary (net of all fees).
  - +7.7% / yr. (3 years)
  - +7.9% / yr. (5 years)
  - +9.8% / yr. (15 years)
- ***Competitive Fees*** **–** 45 bps mgt. fee + 5% incentive fee for full discretion at $300MM. Additional potential pass through of 12 - 55 bps of AIP negotiated fee discounts.
- ***Core Competency*** **–** The implementation of custom hedge fund portfolios is our core competency. Over 70% of hedge fund $AUM is in portfolios customized to meet individual client needs.
- ***Well Resourced and Stable Team*** **–** 81 dedicated professionals, organized into 6 specialty sub-teams. 7 of 8 senior portfolio managers have worked together for more than a decade.
- ***Counterparty Profile*** **–** Morgan Stanley is well capitalized with an investment grade credit rating.

1. Source: Morgan Stanley as of December 31, 2015, unaudited.
2. Subject to third-party confidentiality obligations, information barriers established by Morgan Stanley in order to manage potential conflicts of interest, and applicable allocation policies.

Appendix

- 2016 Hedge Fund Themes
- Custom Accounts Consolidated Results
- Rep Account – unlevered performance
- HF manager analysis & monitoring
- Glossary of terms
- Risk factors

Current Hedge Fund Themes

Equity Long/Short: Favorable conditions for stock picking alpha

- Correlations remain in a range accommodative to stock picking, and dispersion has increased from very low levels. Fed normalization, the rise in credit spreads and dramatic changes in inputs, such as commodity prices and FX, may lead to more opportunities for alpha.
- Corporates seem healthy and engaging in shareholder friendly activities such as buybacks and M&A.
- Cyclical and secular shifts in sectors such as technology, energy and healthcare appear to continue to disrupt industries, creating winners and losers.
- In light of higher valuations and potential volatility associated with Fed hikes, we tend to favor managers with lower net market exposure.

Event Driven: Opportunities for distressed credit are expanding. Tighter credit markets pose headwind to shareholder friendly activities

- Widening credit spreads, deteriorating market liquidity and increasing risk aversion may lead to continued rise in volatility, thus, increased opportunities in distressed credit. Rising defaults in commodity sector and tighter credit conditions may lead to contagion in other sectors.
- Rising financing costs and tighter credit availability may become a headwind to shareholder friendly activities that rely on access to credit markets. Opportunities appear to remain for activists to accelerate corporate change, albeit, on a more selective basis.
- European banks remain under pressure to raise capital and deleverage while operating in a stagnating economy. We expect selective opportunities to acquire assets from bank balance sheets or to provide capital solutions to borrowers needing funding as banks retrench.

Macro: Elevated volatility across asset classes and divergent fundamentals are supportive

- Continued uncertainty regarding the Fed hiking cycle and risks emanating from China’s macroeconomic imbalances may support elevated volatility, and thus, increased trading opportunities.
- AIP Risk-On/Risk-Off Indicator remains below peak, which may benefit both systematic and discretionary macro strategies.
- Divergent macro fundamentals in developed and emerging markets may create opportunities for alpha.
- Commonality of positioning across macro strategies, particularly in foreign exchange, warrants ongoing attention.

Mortgage Trading: Higher spreads available despite strong fundamentals

- Poor technicals in global credit markets have created more total return opportunities in structured credit in 2016.
- Fundamentals remain strong for U.S. and European RMBS; growing new issue opportunities may complement legacy trading.

Relative Value Arbitrage: Less competition has improved the opportunity set

- Significant decline in bank proprietary trading assets, particularly in fixed income, possibly opening up relative value trading opportunities.
- Absent a shock to financing markets, we believe this is a compelling strategy to help protect capital and generate returns independent of market. direction

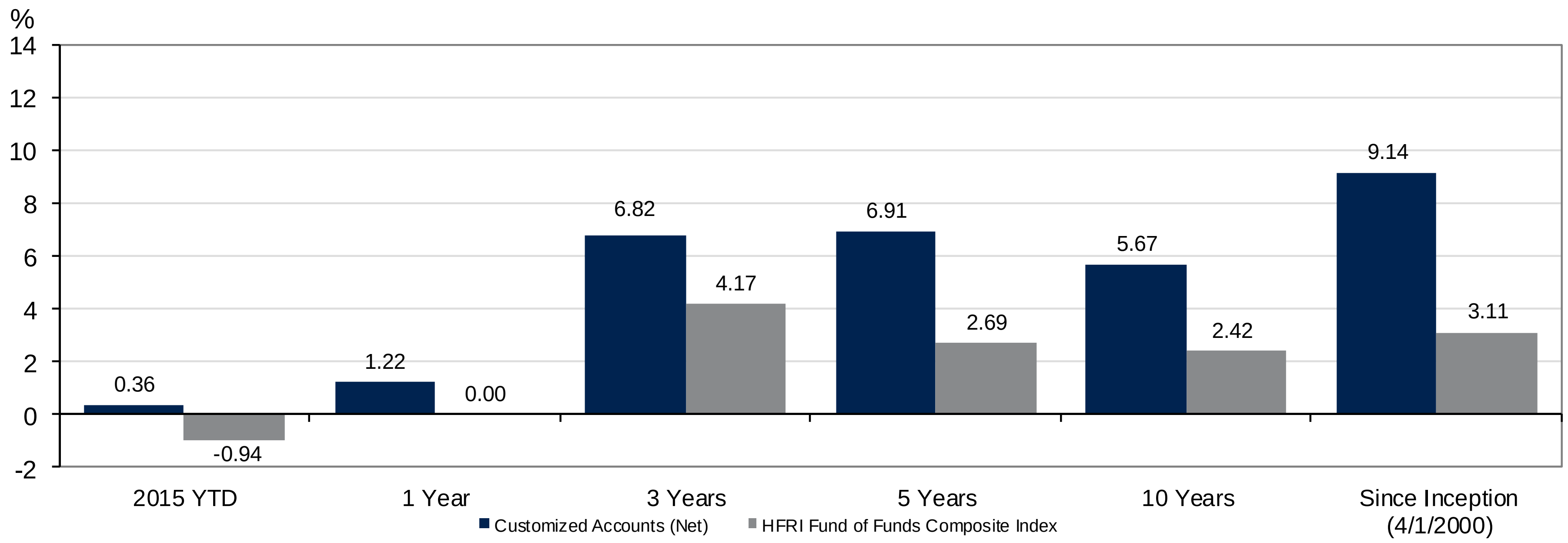
Secondaries and Co-investments: Discounts remain elevated for liquidity provision

- Opportunities may include liquidating vehicles, side pockets, portfolio sales and funds with constrained liquidity.
- Few participants with combination of due diligence depth, execution experience and ability to invest with duration greater than quarterly liquidity horizon.
- Increasing co-investment flow from hedge fund partners to target specific, less liquid opportunities at advantaged fees.

The views expressed above are those of Morgan Stanley AIP as of the date of this presentation and will not be supplemented or updated. These views are speculative in nature, may not come to pass, and are not intended to predict the future of an investment in any Morgan Stanley product. For illustrative purposes only. There is no guarantee such investment opportunities will occur.

Historical Performance

Customized Accounts (Primaries/Hybrids) Consolidated Net Results (As of September 30, 2015)[1]



1. Performance for periods greater than one year is annualized. The HFRI Fund of Funds Composite Index is the asset-weighted performance of all funds of hedge funds self-reporting to Hedge Fund Research, Inc. The source of HFRI index data is Hedge Fund Research, Inc. (www.hedgefundresearch.com) as of November 1, 2015. HFRI Fund of Funds Composite is the asset-weighted performance of all funds of hedge funds self-reporting to Hedge Fund Research, Inc. The index is unmanaged and may not be invested in directly. Please see pages 7-10 for disclosures for the Customized Accounts (Primaries/Hybrids) Consolidated Results. **The information on Morgan Stanley AIP's Customized Accounts (Primaries/Hybrids) Consolidated Results performance is highly confidential and is being provided at your specific request. It is not to be reproduced or redistributed. Past performance is not indicative of future results.**

Customized Accounts (Primaries/Hybrids) Consolidated Net Results (Continued)

Data as of September 30, 2015

The Table Below Reports the Portfolios Included in the Customized Accounts (Primaries/Hybrids) Consolidated Results.

Portfolio	Inception Date	End Date
Portfolio 1	4/1/2000	N/A
Portfolio 2	4/1/2004	8/31/2015
Portfolio 3	10/1/2006	N/A
Portfolio 4	8/1/2007	4/30/2010
Portfolio 5	10/1/2007	N/A
Portfolio 6	3/1/2008	N/A
Portfolio 7	3/1/2008	N/A
Portfolio 8	7/1/2008	N/A
Portfolio 9	6/1/2010	N/A
Portfolio 10	6/1/2010	N/A
Portfolio 11	7/1/2010	N/A
Portfolio 12	1/1/2011	N/A
Portfolio 13	2/1/2011	8/31/2014
Portfolio 14	5/1/2011	N/A
Portfolio 15	5/1/2011	8/31/2011
Portfolio 16	5/1/2011	N/A
Portfolio 17	5/1/2011	1/31/2014
Portfolio 18	7/1/2011	N/A
Portfolio 19	7/1/2011	N/A
Portfolio 20	11/1/2011	N/A
Portfolio 21	1/1/2012	N/A
Portfolio 22	1/1/2012	N/A
Portfolio 23	4/1/2012	N/A
Portfolio 24	10/1/2012	N/A
Portfolio 25	11/1/2012	N/A
Portfolio 26	2/1/2013	N/A

Customized Accounts (Primaries/Hybrids) Consolidated Net Results (Continued)

Data as of September 30, 2015

The Table Below Reports the Portfolios Included in the Customized Accounts (Primaries/Hybrids) Consolidated Results (Continued).

Portfolio	Inception Date	End Date
Portfolio 27	2/1/2013	N/A
Portfolio 28	3/1/2013	N/A
Portfolio 29	3/1/2013	N/A
Portfolio 30	3/1/2013	N/A
Portfolio 31	4/1/2013	N/A
Portfolio 32	8/1/2013	N/A
Portfolio 33	8/1/2013	N/A
Portfolio 34	9/1/2013	N/A
Portfolio 35	9/1/2013	N/A
Portfolio 36	10/1/2013	N/A
Portfolio 37	12/1/2013	N/A
Portfolio 38	2/1/2014	N/A
Portfolio 39	2/1/2014	N/A
Portfolio 40	3/1/2014	N/A
Portfolio 41	3/1/2014	N/A
Portfolio 42	3/1/2014	N/A
Portfolio 43	5/1/2014	5/31/2015
Portfolio 44	5/1/2014	N/A
Portfolio 45	7/1/2014	N/A
Portfolio 46	10/1/2014	N/A
Portfolio 47	10/1/2014	N/A
Portfolio 48	1/1/2015	N/A
Portfolio 49	3/1/2015	N/A
Portfolio 50	3/1/2015	N/A
Portfolio 51	5/1/2015	N/A

Customized Accounts (Primaries/Hybrids) Consolidated Net Results (Continued)

Data as of September 30, 2015

The Table Below Reports the Portfolios Included in the Customized Accounts (Primaries/Hybrids) Consolidated Results (Continued).

Portfolio	Inception Date	End Date
Portfolio 52	06/01/2015	N/A

Customized Accounts (Primaries/Hybrids) Consolidated Net Results (Continued)

Data as of September 30, 2015

This Separate Account Consolidated Returns information is being provided to the recipient at the recipient's specific request.

Customized Accounts (Primaries/Hybrids) Consolidated Results Inception and Description: The Customized Accounts (Primaries/Hybrids) Consolidated Results (the "Consolidated Results") were created on June 8, 2009. The earliest date for which performance is reported for the Consolidated Results is April 1, 2000, the formation date of AIP. Each portfolio in the Consolidated Results is a portfolio of hedge funds. The investment policy and certain risk/return characteristics of portfolios in the Consolidated Results may be dissimilar to those of other portfolios in the Consolidated Results; therefore, the AIP Fund of Hedge Funds team does not otherwise aggregate the returns of these portfolios as an indication of the team's historical performance. The Consolidated Results include portfolios that invest primarily (i.e., >60% of their assets, in each case) in hedge fund interests which are purchased directly from the respective hedge funds (or to which exposure is synthetically achieved via derivatives transactions with counterparties which may decide to invest directly in the relevant hedge funds to hedge their derivatives positions). The AIP Fund of Hedge Funds team manages other actively managed fund of hedge fund commingled fund portfolios not included in the Consolidated Results.

The portfolios have different inception dates. Consequently, the performance information of certain portfolios is for a limited time period and may not reflect performance in different economic and market cycles. Future investments will be under different economic and market conditions. Certain historical performance may have been achieved prior to the recent increase in the number of hedge funds. Given this increasingly competitive hedge fund environment, past performance may not be indicative of the future results. One portfolio in the Consolidated Results (Portfolio 1) utilizes leverage as part of its investment strategy. Leverage amplifies returns and losses.

Performance Calculation: The returns presented are an asset-weighted blend of the compounded net monthly returns of each portfolio within the Consolidated Results. The Consolidated Results return for a particular month is the weighted average (based on net asset value as of the first day of such month) of the returns (as of the last day of such month) for each portfolio. The net returns also include deductions for other fees and expenses charged to the portfolios, such as custodial fees, legal fees, accounting fees or other fees and expenses during the relevant time period. The Consolidated Results have not been audited nor are they calculated in accordance with the Global Investment Performance Standards developed by the CFA Institute ("GIPS").

At September 30, 2015, net asset values of portfolios in the Consolidated Results total $8.2 billion. The largest investor owning a portfolio in the Consolidated Results has a net asset value of $3.8 billion invested with AIP. Management fees for the 46 presently managed portfolios range from 0.00% per annum to 1.25% per annum. Incentive fees for these portfolios range from 0% to 5%. The maximum hurdle rate (above which incentive fees are charged) among the portfolios included is equal to 8% per annum. The incentive fee if applicable is calculated as a percentage of net profits allocated for the incentive period, above the greater of the hurdle rate (if any) or the loss carry forward amount(s) (as applicable and if any). No incentive fee is charged in loss periods or, if there is a loss carry forward amount, until prior period losses have been made up.

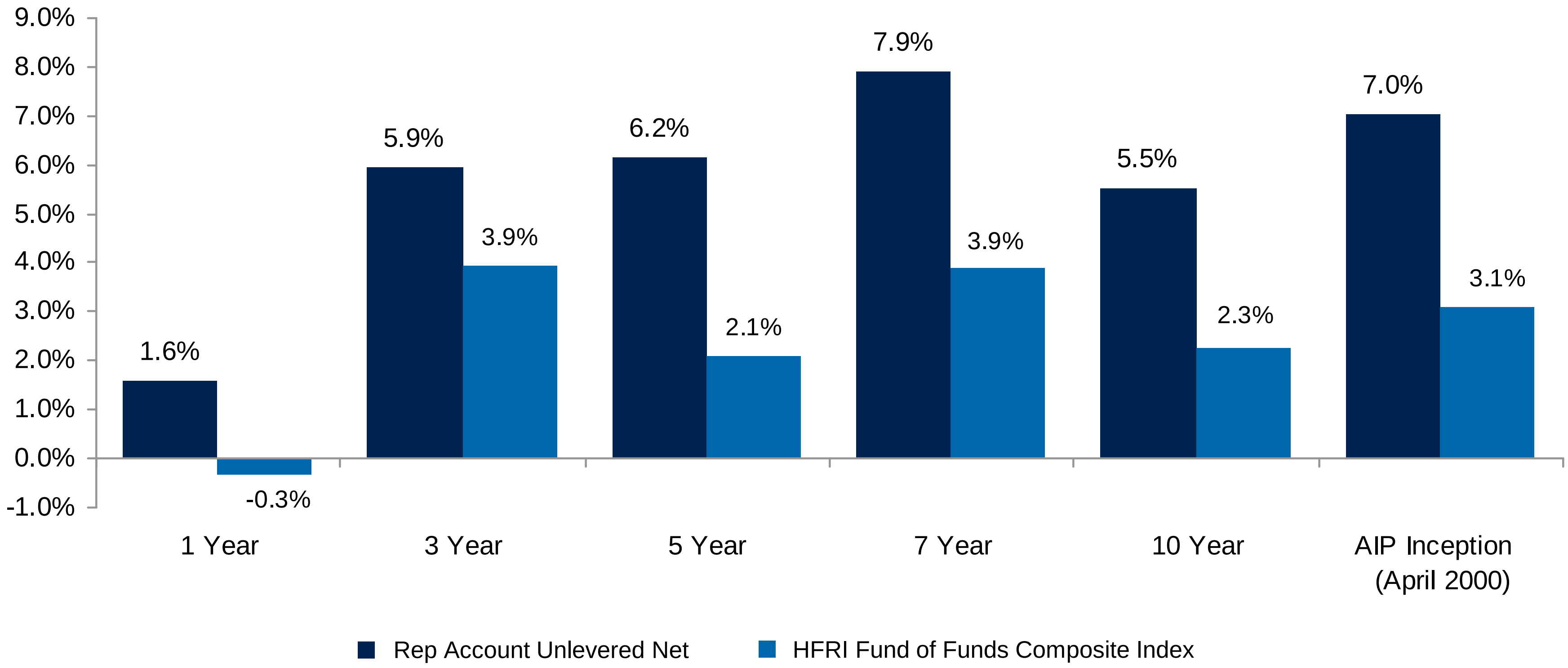
Considerations Regarding Portfolio 1: Portfolio 1 is part of a larger portfolio of investments that includes both investments in hedge funds ("hedge fund investments") and investments in private equity funds, real estate funds and co-investments in privately held companies (collectively, "private investments"). The Consolidated Results include only the performance of the hedge fund investments of Portfolio 1, as determined on a subjective basis, in good faith, by the Investment Adviser. In addition, the hedge fund investments made on behalf of the larger account that includes Portfolio 1 were not managed as a separate portfolio on a stand-alone basis (as were the investments made by each of the other portfolios), but, rather, their selection was influenced by the presence of the various private investments held in the larger account that includes Portfolio 1 (including investments made in private equity funds). Had Portfolio 1 been managed on a stand-alone basis, different decisions may have been made regarding whether to invest in specific hedge fund investments or regarding the timing of those investments. In addition, the investment objectives of the larger portfolio that includes Portfolio 1 and its corresponding hedge fund investments may be different from those of the other portfolios. Finally, Portfolio 1 invested in certain hedge fund investments that subsequently closed to new investors and, thus, were not available for investment by the other portfolios.

In addition, returns attributable to Portfolio 1 were calculated on the basis of the internal rate of return ("IRR"). Returns attributable to other portfolios were calculated on a time-weighted return ("TWR") basis. The Consolidated Results is calculated linking both return streams. TWR represents the annualized compounded periodic returns of the portfolio, simplifying the timing effect of additions or withdrawals of capital during the period by assuming that cash flows occur at a single point in time during the period. This is the accepted U.S. industry convention (as per the AIMR Performance Presentation Standards and GIPS) for reporting returns on investments in marketable securities. IRR represents the discount rate that equates the cost of the investment with the present value of cash generated by the investment, thus accounting for the timing and magnitude of individual cash flows. The degree of similarity between the two will depend upon the frequency and magnitude of an investor's cash flows. To illustrate the difference of the two methodologies, the annualized performance of Portfolio 1 for the five years ending September 30, 2015 was 9.04% on an IRR basis and 9.08% on a TWR basis.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Representative Account Portfolio Performance

Annualized Performance
Unlevered Net of Fees[1]
Data as of December 31, 2015



1. Net of all fund expenses and management fees. Source: AIP unaudited. **Past performance is not indicative of future results**.
2. Performance for periods less than one year is not annualized.

The results above are not intended to predict the performance of any specific investment. Indices are unmanaged and their returns do not include sales charges or fees, which would lower performance. It is not possible to invest directly in an index. Index performance is not illustrative of fund performance.

Analyzing

Sourcing | **Analyzing** | Investing | Monitoring

Three specialist teams collaborate in a four-stage manager selection process

Phase 0

- Funds identified for proprietary database for tracking
- If rejected, rationale entered with performance data
- Compliance “conflicts” check required for progression

Phase I

- Funds identified as potential investment candidates
- Due Diligence (“DD”) and formulation of investment thesis by quantitative and investment teams
- DD summary, preliminary quantitative analysis and legal document review
- Portfolio Managers with CIO determine suitability for further research

Phase II

- Full DD; incorporating Investment and Operational Due Diligence Teams on-site due diligence
- Investment Committee approval required to move to Phase III

Phase III

- Completion of DD; finalize due diligence report, complete external reference checks, negotiate terms (where appropriate)
- Investment Committee approval required to approve fund for investment
- Submission of full due diligence report to AIP Investment Committee

Qualitative Assessment

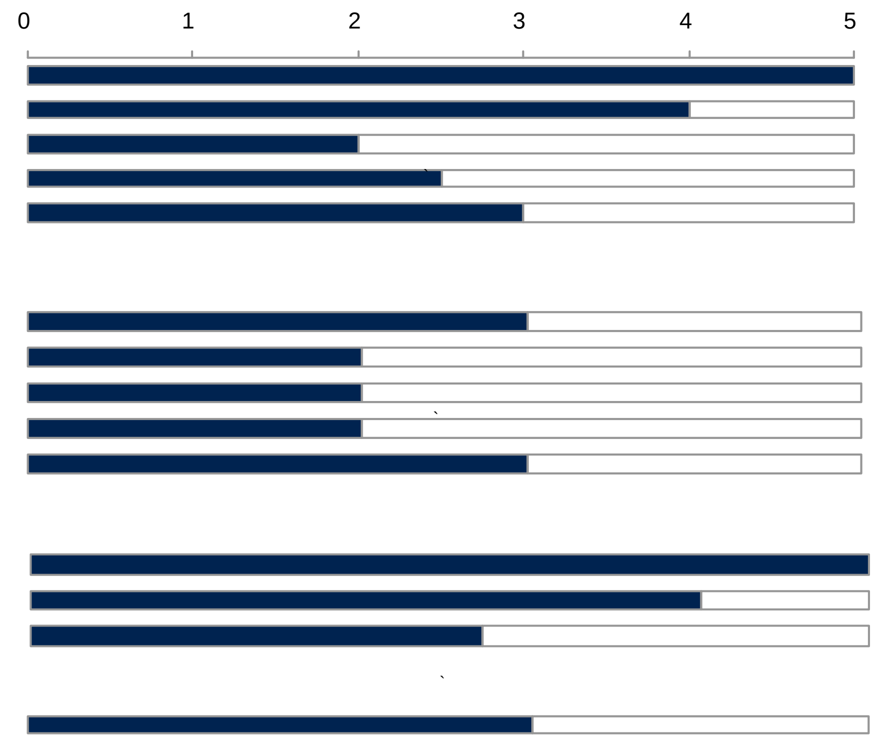
Sourcing | Analyzing | Investing | Monitoring

Expert system provides a consistent framework across investment teams

Integrated Investment Approach[1]

Objective Scoring Criteria Serves to Benchmark Potential and Existing Investments

	Weight %	Score
Investment Strategy	**35.0**	**3.69**
Investment Process/Alpha Generation	30.0	5.00
Investment Process/Risk Control	30.0	4.00
Assets	15.0	2.00
Transparency	12.5	2.50
Terms	12.5	3.00
	100.0	
Investment Team	**35.0**	**2.50**
Experience	35.0	3.00
Structure	20.0	2.00
Compensation	15.0	2.00
Turnover	15.0	2.00
References	15.0	3.00
	100.0	
Organization	**15.0**	**3.60**
Ownership Structure	25.0	5.00
Business Plan/Stability	25.0	4.00
Operational Due Diligence	50.0	2.70
	100.0	
Performance	**15.0**	**3.00**
Total	**100.0**	**3.16**



1. The data serves as an example and therefore does not represent an actual investment manager.
The statements above reflect the views and opinions of Alternative Investment Partners as of the date hereof and not as of any future date.

Overview of the Alpha Estimate Analysis

- Hedge fund managers can generate returns through three basic ways:

Beta	• Accept the returns provided by the market or trading strategy
Alpha	• Increase/decrease market exposure in anticipation of market appreciation/depreciation (timing) • Identify the securities or trades expected to outperform the market or trading strategy (selection)

- A series of statistical techniques[1] that estimate the "value-added" skills of the underlying managers are utilized to determine return attribution
  - Multi-factor regression
  - Define style and correlation
  - Model alpha, identify betas
  - Test market scenarios

1. The techniques employed use a combination of regression analysis to estimate long run linear exposures and Kalman filters to estimate the time varying beta exposures.

Monitoring – Portfolio Level

Portfolio-Level

- Measure risk shared across portfolio, i.e., market and systematic hedge fund risk
- Quantitative core supported by qualitative research

	Risk Factor	Measurement
Diversification	Market exposure, volatility, hedge fund strategy bias	Beta, correlation GARCH volatility, VaR Strategy classification
Portfolio concentration	Systematic risk vs. single-manager risk	Effective holdings Position size limits PCA analysis
Leverage and liquidity	Leverage magnifies other risks in portfolio	Valuation assessment Liquidity-leverage mix Liquidity modeling

The statements above reflect the views and opinions of Morgan Stanley AIP as the date hereof and not as of any future date.

Monitoring – Manager Level

Sourcing → Analyzing → Investing → **Monitoring**

INVESTMENT DUE DILIGENCE

Monthly
Performance attribution
Sector/region/other factor analysis
Capacity monitoring

Quarterly
Call with manager
Review SEC filings (13F filings, others)

Annual
On-site visit
Revise due diligence scorecard

OPERATIONAL DUE DILIGENCE

Monthly
Media search
Review manager communications

Annual
On-site visit
Review audited financials
Revise due diligence scorecard

Other
Refresh background checks
Meet with service providers

QUANTITATIVE SCORING

Z-Score Process
Identify change in manager behavior based on a hedge fund's risk factors. Repeated outliers results in Investment Committee review

"Rule of 4"

Addition to "Watch list"[1] or re-approval required if:

Any two standard deviation return from expected twice in a 12-month period or a single four standard deviation return from expected.

Investment Committee Monthly Risk Review

Possible Investment Committee Actions from Monthly Risk Review

Add to Watch list, with specific time frame for resolution (typically, next liquidity point)
Site visit / call with the manager
Position reduction
Redeem in full
No change if issue satisfactorily resolved

1. AIP monitors the funds on the watch list and sets a specific time frame for resolution. No new investments are made to funds listed on the watch list.

Glossary of Terms

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

Arbitrage
A purchase and sale of nearly identical assets in different markets. Arbitrage generally refers to a relative value trade where the probability of a profit from selling positions significantly outweighs the probability of a loss.

Beta
Beta is the sensitivity of the return of an investment to the returns in a market as a whole (e.g., as measured by the S&P 500 Index with respect to the U.S. large-cap equity market).

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

Derivative
A financial investment such as an option or future, whose value is derived wholly or partly from the value of another security.

Earnings Yield
Earnings yield is calculated by dividing the earnings by the cash price. It is the inverse of the Price/Earnings Ratio.

Gross Exposure
Is calculated by adding the percentage of the fund's equity invested in short sales to the percentage of equity used for long positions.

Hurdle Rate
The minimum investment return a fund must exceed before a fund manager can start collecting incentive fees.

Incentive Fee (Performance Fee)
A certain percentage of realized and unrealized investment gains and appreciation a particular hedge fund manager charges per year over and above the management fee. The charge is typically between 15% and 25% over the threshold performance (hurdle rate) in a calendar year.

Kurtosis
Kurtosis describes the distribution of data around the mean, with excess kurtosis having fat tails and low, even distribution, and negative kurtosis having skinny tails and a distribution concentrated toward the mean.

Leverage
The borrowed money that an investor may employ in order to control a larger market position than the underlying cash position would allow. Leverage accentuates both risk and return.

Lock-Up
Time period, often one year, in which an initial investment in a hedge fund, or any part of that investment, cannot be redeemed by the fund.

Maximum Drawdown
The worst period peak to valley performance regardless of whether or not the drawdown consisted of consecutive months of negative performance.

Net Exposure
Takes into account the benefits of offsetting long and short positions and is calculated by subtracting the percentage of the fund's equity capital invested in short sales from the percentage of its equity capital used for long positions. For example, if a fund is 125% long and 50% short, its net exposure would be 75%.

Price/Earnings Ratio
The Price/Earnings Ratio is calculated by dividing the cash index price by the prior 12-months earnings.

Reflation
Reflation is the intentional reversal of deflation through a monetary action by a government.

Risk-Free Rate of Return
Theoretical rate of return of an investment with zero risk. Generally only U.S. securities (specifically T-bills) are considered "risk free."

Sector
Investment strategy specializing in securities from particular economic sectors.

Sharpe Ratio
A ratio developed by William F. Sharpe to measure risk-adjusted performance. It is calculated by subtracting the risk-free rate from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns.

Short Selling
Involves the sale of a security not owned by the seller; a technique used to take advantage of an anticipated price decline.

Skew
Skew describes the asymmetry of data from the normal distribution. Skew can be negative, weighting to the left (less than the mean) or positive, weighting to the right (greater than the mean).

Standard Deviation
Standard deviation is a measure of risk that represents the degree to which an investment's performance has varied from its average performance over a particular period. A higher standard deviation indicates higher risk.

Tail Risk
A form of portfolio risk that arises when the possibility that an investment will move more than three standard deviations from the mean is greater than what is shown by a normal distribution.

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

Summary of Risk Factors

This is a summary of various risks associated with investing in portfolios of hedge fund investments. This summary is not, and is not intended to be, a complete enumeration or explanation of the risks involved. The recipient should consult with its own advisors before deciding whether to invest in these strategies. In addition, to the extent that the investment program of such a portfolio changes and develops over time, additional risk factors not described here may apply. Only a recipient who understands the nature of the investment, does not require more than limited liquidity in the investment, and has sufficient resources to sustain the loss of its entire investment should consider making the kind of investments described in this Presentation.

By investing in a fund of hedge funds portfolio, an investor gains exposure to the investments included in the portfolio of the fund of hedge funds and is subject to the risks attendant to such investment portfolio.

The following are among the risks applicable generally to a portfolio of hedge fund investments:

Reliance on Third-Party Management. The goal of investing in a portfolio of hedge funds managed by the Investment Adviser is to seek capital appreciation. Hedge funds selected for the portfolio are managed by third-party managers unaffiliated with the Investment Adviser over which the Investment Adviser does not exercise control.

Wide Scope of Investment Options Available to Third-Party Managers. Hedge funds may invest and trade in a wide range of instruments and markets and may pursue various investment strategies. Although hedge funds will primarily invest and trade in U.S. and non-U.S. equity and debt securities, they may also invest and trade in equity-related instruments, currencies, financial futures, and debt-related instruments. In addition, hedge funds may sell securities short and use a wide range of other investment techniques. Hedge funds are generally not limited in the markets in which they may invest, either by location or type, such as U.S. or non-U.S. markets or large- or small-capitalization companies, or in the investment discipline which their investment managers may employ, such as value or growth strategies or bottom-up or top-down analysis. Hedge funds may use various investment techniques for hedging and non-hedging purposes. A hedge fund may, for example, sell securities short, purchase and sell options and futures contracts, and engage in other derivative transactions. The use of these techniques may be an integral part of the hedge fund's investment strategy and may involve certain risks. Hedge funds may use leverage, which also entails risk.

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

Performance-Based Compensation. In addition to asset-based fees based on the hedge fund's net assets under management, a hedge fund's investment manager will typically charge each of the hedge fund's investors a performance or incentive fee or allocation based on net profits of the hedge fund which it manages. Similarly, in addition to asset based fees based on the portfolio's net assets, the Investment Adviser or one of its affiliates will also receive performance-based compensation (the "Performance Incentive"). The receipt of a performance or incentive fee or allocation by a hedge fund's investment manager or of the Performance Incentive by the Investment Adviser or one of its affiliates may create an incentive for the hedge fund's investment manager or the Investment Adviser, respectively, to make investments which are riskier or more speculative than those which might have been made in the absence of such an incentive.

Summary of Risk Factors (Continued)

Lack of Transparency. Hedge funds are not registered as investment companies with the U.S. Securities and Exchange Commission (the "SEC") under the Investment Company Act of 1940 (the "ICA"), and investors in hedge funds will not have the benefit of the protections afforded by the ICA to investors in registered investment companies. Although the Investment Adviser will periodically receive information from each hedge fund in which the portfolio is invested regarding such hedge fund's investment performance and investment strategy, the Investment Adviser may have little or no means of independently verifying this information. Hedge funds are not contractually or otherwise obligated to inform their investors of details surrounding proprietary investment strategies. In addition, the Investment Adviser has no control over the investment management, brokerage practices, custodial arrangements, or operations of hedge funds and must rely on the experience and competence of each hedge fund's investment manager in these areas.

Multiple Levels of Fees and Expenses. By investing in a portfolio of hedge funds managed by the Investment Adviser, an investor bears its proportionate share of the asset-based fees and the Performance Incentive payable to the Investment Adviser and any of its affiliates, as the case may be, as well as other expenses of the portfolio. An investor, however, also indirectly bears its proportionate share of the asset-based fees, performance or incentive fees or allocations, and other expenses borne by investors in the hedge funds included in the portfolio. An investor which meets the eligibility conditions imposed by the respective hedge funds included in the portfolio, including minimum initial investment requirements which may be substantially higher than those imposed by the Investment Adviser, could avoid the extra layer of fees and expenses by investing directly in those hedge funds.

Independence of Hedge Funds' Investment Managers. A hedge fund's investment manager will receive any performance or incentive fees or allocations to which it is entitled, without regard to both the performance of the other hedge funds in the portfolio and the performance of the overall portfolio. An investment manager to a hedge fund with positive performance may receive compensation, even if the overall portfolio's aggregate returns are negative.

Potential for Increased Transactions Costs. Investment managers of the hedge funds included in the portfolio make investment decisions independently of each other. Consequently, at any particular time, one hedge fund in the portfolio may be purchasing interests in an issuer which at the same time are being sold by another hedge fund in the portfolio. Investment by hedge funds in this manner could cause the overall portfolio to incur certain transaction costs indirectly without accomplishing any net investment result.

Limited Liquidity of Hedge Funds. Additional investments in, or withdrawals from, the hedge funds in the portfolio may be made only at certain times, as specified in the governing documents of the respective hedge funds. As a result, before investments in hedge funds are effected or in furtherance of the portfolio's objectives generally, some assets held in the portfolio may temporarily be from time to time cash, cash equivalents, or high-quality fixed-income securities and money market instruments (whether or not managed by affiliates of the Investment Adviser).

Limited Voting Rights of Investors. A hedge fund typically restricts the ability of its investors to vote on matters relating to the hedge fund. As a result, investors in the hedge fund will have no say in matters which could adversely affect their investment, via the portfolio, in the hedge fund. Additionally, for regulatory purposes related to the Investment Adviser's management of certain funds registered with the SEC under the ICA, the Investment Adviser may enter into contractual relationships under which other funds managed by the Investment Adviser, as well as the registered funds managed by the Investment Adviser, irrevocably waive their respective voting rights (if any) to vote interests in underlying hedge funds.

Distributions in Kind. Hedge funds may distribute securities in kind to investors. Securities distributed in kind may be illiquid or difficult to value. In the event that a hedge fund were to make such a distribution in kind to a portfolio, the Investment Adviser would seek to dispose of the securities so distributed in a manner which is in the best interests of such portfolio.

Summary of Risk Factors (Continued)

Reliance on Third-Party Managers with Respect to Asset Valuation. Certain securities in which a hedge fund invests may not have a readily ascertainable market price and will be valued by the hedge fund's investment manager. Such a valuation generally will be conclusive, even though the hedge fund's investment manager may face a conflict of interest in valuing the securities, inasmuch as the value of such securities will affect the compensation payable to the hedge fund's investment manager. In most cases, the Investment Adviser will have no ability to assess the accuracy of any such valuation. In addition, the net asset values or other valuation information received by the Investment Adviser from hedge funds will typically be unaudited and subject to revision until completion of the annual audits of the respective hedge funds. Revisions to the gain and loss calculations will be an ongoing process, and no net capital appreciation or depreciation figure can be considered final until completion of the annual audits of the respective hedge funds.

Summary of Risk Factors (Continued)

Regulation as a Bank Holding Company. Morgan Stanley elected in September 2008 to be regulated as a Bank Holding Company (a "BHC") under the U.S. Bank Holding Company Act of 1956, as amended (the "BHCA"), and the Federal Reserve has granted Morgan Stanley's application for "financial holding company" ("FHC") status under the BHCA. FHC status is available to BHCs which meet certain criteria. FHCs may engage in a broader range of activities than BHCs which are not FHCs.

The activities of BHCs and their affiliates are subject to certain restrictions imposed by the BHCA and related regulations. Because Morgan Stanley may be deemed to "control" a Fund within the meaning of the BHCA, these restrictions could apply to such Fund as well. These restrictions may materially adversely affect the Fund, among other ways, by imposing a maximum holding period on some or all of the Fund's investments; limiting the amount of an entity's beneficial ownership interests which the Fund may hold; restricting the ability of Morgan Stanley, the Investment Adviser, any AIP affiliate which serves as general partner or manager of the relevant Fund (in either case, the "Affiliated General Partner"), or their affiliates to invest in the Fund or to participate in the management and operations of the entities in which the Fund or an underlying hedge fund invests; or affecting either the ability of the Investment Adviser to pursue certain strategies within the Fund's investment program or the ability of the Fund, Morgan Stanley, any Affiliated General Partner, the Investment Adviser, or any of their respective affiliates to invest in certain underlying hedge funds. Certain BHCA regulations may also require aggregation of the positions owned, held, or controlled in client and proprietary accounts by Morgan Stanley and its affiliates (including without limitation any Affiliated General Partner and the Investment Adviser) with positions held by the Fund (and, in certain instances, one or more underlying hedge funds). Moreover, Morgan Stanley may cease in the future to qualify as an FHC, which may subject the Fund to additional restrictions or cause any Affiliated General Partner to dissolve the Fund. Additionally, there can be no assurance either that the bank regulatory requirements applicable to Morgan Stanley and the Fund will not change or that any such change will not have a material adverse effect on the Fund.

Morgan Stanley may in the future, in its sole discretion, restructure the Fund, any Affiliated General Partner, or the Investment Adviser in order to reduce or eliminate the impact or applicability of these bank regulatory restrictions on the Fund or other funds and accounts managed by the Investment Adviser or any of its affiliates. Morgan Stanley may seek to accomplish this result by causing another entity to replace the Fund's current Affiliated General Partner (if any), transferring ownership of such Affiliated General Partner or the Investment Adviser, reducing the amount of Morgan Stanley's investment in the Fund (if any), effecting any combination of the foregoing, or implementing such other means as it determines in its sole discretion. Any such transferee may be unaffiliated with Morgan Stanley.

Recent Legislative Events. On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). Section 619 of the Dodd-Frank Act is known as the "Volcker Rule." Once the Volcker Rule takes effect on July 21, 2012, it will limit the extent to which a "banking entity," including Morgan Stanley and any of its affiliates, may sponsor or invest in a hedge fund or a private equity fund. It will also limit the aggregate equity, partnership, or other ownership interests of Morgan Stanley in hedge funds and private equity funds to a maximum of 3% of Morgan Stanley's Tier 1 Capital. In addition, Morgan Stanley will be able to own no more than 3% of the total equity, partnership, or other ownership interests of any hedge fund or private equity fund organized and offered by Morgan Stanley. Banking entities such as Morgan Stanley will also not be permitted, directly or indirectly, to guarantee, to assume, or otherwise to insure the obligations or performance of such funds or of any funds in which such funds invest. The Volcker Rule will also prohibit Morgan Stanley from engaging in certain "covered transactions" with any Fund, such as extensions of credit. The Volcker Rule may require Morgan Stanley and its affiliates, including any Affiliated General Partner, the Investment Adviser, or both, to restructure or terminate their respective affiliations with the Fund. During a statutory transition period for Morgan Stanley to become compliant with the requirements of the Volcker Rule, a Fund and any offshore fund formed for the purpose of investing in such Fund may need to change its name so as to avoid sharing a name with Morgan Stanley. Also, the Affiliated General Partner (if any) and any other affiliate of Morgan Stanley invested in the Fund may need to reduce its investment in the Fund so as to meet the limitation that no more than 3% of Morgan Stanley's Tier 1 Capital be invested in hedge funds and private equity funds. Any of the Fund, the Affiliated General Partner (if any), or the Investment Adviser may also be required to take other actions. Morgan Stanley currently believes that any investments by it or any of its affiliates should comply with the 3% limitation on Morgan Stanley's total ownership interest in the Fund. Because the Dodd-Frank Act and the Volcker Rule are such recent legislative changes and because the Dodd-Frank Act and the Volcker Rule direct a variety of other bodies and regulatory agencies of the U.S. Government to consider certain additional implementing regulations, the full scope of the impact of both the Dodd-Frank Act and the Volcker Rule is not yet known, and other direct or indirect consequences of the Dodd-Frank Act and the Volcker Rule may affect Morgan Stanley, any Affiliated General Partner, the Investment Adviser, or any of their respective affiliates and may result in a material adverse effect on the Fund.

Summary of Risk Factors (Continued)

The following risks are applicable to emerging markets investments:

Emerging Markets. The Fund or the hedge funds selected for the Fund's portfolio may invest in assets in emerging markets. Investing in emerging markets involves risks and special considerations not typically associated with investing in other more established economies or securities markets. Such risks may include: (i) increased risk of confiscatory taxation or nationalization or expropriation of assets; (ii) greater social, economic, and political uncertainty, including war; (iii) higher dependence on exports and the corresponding importance of international trade; (iv) greater volatility, less liquidity, and smaller capitalization of securities markets; (v) greater volatility in currency exchange rates; (vi) greater risk of inflation; (vii) greater controls on foreign investment and limitations on repatriation of invested capital and on the ability to exchange local currencies for U.S. dollars; (viii) increased likelihood of governmental involvement in, and control over, the economies; (ix) governmental decisions to cease support of economic reform programs or to impose centrally planned economies; (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (xi) less extensive regulation of the securities markets; (xii) longer settlement periods for securities transactions and less reliable clearance and custody arrangements; and (xiii) less developed corporate laws regarding protection of investors and fiduciary duties of officers and directors.

Non-U.S. Investments. The Fund expects to make investments (directly or indirectly) in a number of different countries. Such investments may be made in countries or economies which may prove unstable. Depending on the country in which the investment is made, there may exist the risk of adverse political developments, including nationalization, confiscation without fair compensation, or war. Laws and regulations of other countries may impose restrictions which would not exist in the United States. Investments in non-U.S. corporations may require significant government approvals under corporate, securities, exchange control, foreign investment, and other similar laws and may require financing and structuring alternatives which differ significantly from those customarily used in the United States. No assurance can be given that a given political or economic climate, or that particular legal or regulatory risks, might not adversely affect an investment by the Fund.

Small-Capitalization Stocks. The Fund or the hedge funds selected for the Fund's portfolio may invest in other funds which make investments in small- to medium-sized companies of a less seasoned nature. Investments in small-capitalization issuers often involve significantly greater risks than the securities of larger, better-known companies because they may lack the management experience, financial resources, product diversification, and competitive strengths of larger companies. The equity securities of these smaller issues are usually traded in the over-the-counter markets or on regional securities exchanges, and the frequency and volume of trading in these securities is often substantially less than that of larger companies, which may result in wider price fluctuations in small-capitalization stocks than in stocks of larger issuers. When selling large positions in small-capitalization stocks, the Fund or the hedge funds selected for the Fund's portfolio may have to sell holdings at discounts from quoted prices or may have to make a series of small sales over a period of time.

Currencies. The Fund or one or more of the hedge funds selected for the Fund's portfolio may invest a portion of its assets in non-U.S. currencies, or in instruments denominated in non-U.S. currencies, the prices of which are determined with reference to currencies other than the U.S. dollar. The Fund or such hedge funds may or may not seek to hedge all or any portion of its foreign currency exposure. To the extent unhedged, the value of the Fund or such hedge fund's assets will fluctuate with U.S. dollar exchange rates, as well as the price changes of its investments in the various local markets and currencies. In addition, some governments from time to time impose restrictions intended to prevent capital flight, which may for example involve punitive taxation (including high withholding taxes) on certain securities transfers or the imposition of exchange controls making it difficult or impossible to exchange or repatriate the local currency. These and other restrictions may make it impracticable for the Fund or the hedge funds selected for the Fund's portfolio to distribute the full amount of the Limited Partners' capital accounts in U.S. dollars, and, therefore, a portion of the distribution may be made in non-U.S. securities or currency.

Summary of Risk Factors (Continued)

The following risks are applicable to distressed investing:

Investing in Distressed Securities – Generally. Companies in whose securities hedge funds pursuing distressed investment strategies may invest are typically disfavored, undergoing transition, financially leveraged, otherwise troubled or potentially troubled, or presently or recently involved in major strategic actions, restructurings, bankruptcy, reorganization, or liquidation. Consequently, such companies' securities are likely to be particularly risky investments, although they may also offer the potential for correspondingly high returns. These securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry, or specific developments within such companies. Additionally, no minimum credit standard serves as a prerequisite to a hedge fund's investment in any instrument, and a significant portion of the obligations and preferred stock in which a hedge fund may invest may be less than investment grade.

Investments in High-Yield Securities. Hedge funds pursuing distressed investment strategies may invest in high-yield securities. Such securities are generally not exchange-traded, and, as a result, these securities trade in a smaller secondary market than exchange-traded bonds. Additionally, hedge funds may invest in bonds of issuers which do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities which are unrated or are below investment grade face ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the issuer's inability to meet timely payments of interest, principal, or both. The market values of certain of these unrated and lower-rated debt securities tend to be more sensitive to economic conditions than higher-rated securities and to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates. Companies which issue such unrated or lower-rated debt securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could severely disrupt the market for, and adversely affect the value of, such securities. Also, it is possible that any such economic downturn could adversely affect the ability of such companies to pay interest, or repay principal, thereon and increase the incidence of default on such securities.

The following are among the risks applicable to investments in mortgage-backed securities ("MBS") and asset-backed securities:

Residential Mortgage-Backed Securities ("RMBS"). Generally, RMBS are MBS backed by residential mortgage loans. Investments in RMBS are subject to various risks, including the risk of delinquency, default, and under-collateralization of the underlying mortgage loans. The following factors, among others, may adversely affect the repayment of a residential mortgage loan: the quality of the underwriting and servicing processes for the underlying mortgage, conditions in the related residential housing market, and general national, regional, and local economic conditions.

Commercial Mortgage-Backed Securities ("CMBS"). Generally, CMBS are MBS backed by commercial or multi-family residential mortgage loans. Investments in CMBS are subject to various risks, including the risk of delinquency, default, and under-collateralization of the underlying mortgage loans. Repayment of a commercial or multi-family mortgage loan depends upon the successful operation and value of the related mortgaged property and the related borrower's ability to refinance the mortgage loan or sell the related mortgaged property. The following factors, among others, may adversely affect the ability of a multi-family or commercial property to generate net operating income: the location, age, functionality, design, and construction quality of the property; the proximity and attractiveness of competing properties; the quality of management and maintenance; the tenant mix and quality; conditions in the commercial property market; and general national, regional, and local economic conditions.

Prepayment Risk. RMBS and CMBS are subject to risks relating to the frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying such RMBS and CMBS. The adverse effects of prepayments may have an impact on one or more underlying funds and, therefore, the Fund in two ways. First, particular investments may experience outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments. Secondly, particular investments may underperform relative to hedges, resulting in a loss. In particular, prepayments (at par) may limit the potential upside of many MBS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

Index Risk. Investments in structured notes, variable-rate MBS (including adjustable-rate mortgage securities, which are backed by mortgages with variable rates), and certain classes of collateralized mortgage obligation ("CMO") derivatives, the rate of interest payable under which vary with a designated rate or index, are subject to index risk. The value of these investments is closely tied to the absolute levels of such rates or indices or to the market's perception of anticipated changes in those rates or indices. This introduces additional risks related to the movements in specific indices or interest rates which may be difficult or impossible to hedge and which also interact in a complex fashion with prepayment risks.

CMOs and MBS Derivatives. The CMO and stripped MBS markets were developed specifically to reallocate the various risks inherent in MBS across various bond classes ("tranches"). For example, CMO "companion" classes typically experience much greater average life variability than other CMO classes or MBS pass-throughs. Interest-only pass-through securities experience greater yield variability relative to changes in prepayments. "Inverse floaters" experience greater variability of returns relative to changes in interest rates. To the extent that a hedge fund concentrates its investments in these or other derivative securities, the prepayment risks, interest rate risks, and hedging risks associated with such securities will be severely magnified.

Subordinated Securities. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of MBS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities therefore possess some of the attributes typically associated with equity investments.

Summary of Risk Factors (Continued)

The following risks are applicable to hedge fund investing in the secondary markets:

Risks Relating to the Secondary Market in Hedge Fund Interests – Generally. A number of hedge funds have been severely affected by the recent economic downturn, and some holders of such hedge funds' interests are seeking to dispose of such interests in the secondary market due to the impaired liquidity of such hedge funds. While investments in these hedge funds may offer the potential for higher returns, they also bear correspondingly greater risks. Among the significant risks of investing in these hedge funds are the loss of the hedge fund's market position, the departure of some or all of its key personnel, and the possible liquidation of the hedge fund's assets at values below those believed to exist at the time of investment.

Investments in Hedge Funds with Impaired Liquidity. Hedge funds whose interests are available on the secondary market may have substantially limited the redemption and liquidity rights otherwise expected by their investors. These limitations can include enforcement of "lock-up" provisions, imposition of "gates," suspension of redemptions, or commencement of liquidation. Such limitations may have been prompted by issues surrounding the magnitude of desired redemptions, the illiquid nature of the hedge fund's underlying investments, the difficulty in valuing underlying investments in the absence of a readily available market price, or other reasons. As such, these hedge funds are expected to have extremely limited near-term liquidity, and, especially in circumstances where a hedge fund's underlying investments lack readily available market prices, they may be very difficult to value. There is no guarantee that investments in such hedge funds will be able to be redeemed at the desired time or the stated or nominally applicable price or value or that these hedge funds will not experience further disruption. Any transfer of an interest in these hedge funds will generally require the consent of the hedge fund's general partner, manager, or sponsor, and the hedge fund's general partner, manager, or sponsor is not obligated to grant such consent. Consequently, there is no guarantee that any such consent will be granted either at the time when an initial investment in the hedge fund is desired or, in the event that the hedge fund continues to limit redemptions, at any later time when disposition of the hedge fund interest is desired.

Difficulties in Valuation. Because there is no public market for hedge fund interests, they are difficult to value. The overall performance of a portfolio of hedge fund interests purchased in the secondary markets will be affected by the acquisition price paid for each such hedge fund interest, and the acquisition price is the result of negotiation with the seller of the interest. Additionally, while the performance of the manager of the hedge fund will affect the purchase price paid for the interest, the historical performance of the hedge fund's manager is not a guarantee or prediction of its future performance, which can vary considerably. Therefore, valuations of investments are to a large extent inherently subjective.

Valuation Analysis Undertaken by the Adviser. In identifying potential investments, the Adviser seeks to purchase interests at a discount to what it believes to be the fair value of the interests. In order to determine the fair value of an interest, the Adviser expects to analyze comparable transactions and relevant data from publicly traded markets and other publicly available sources and to utilize other analytical methods. There is no guarantee, however, that any such analysis undertaken by the Adviser will reflect a value which is a discount to the fair value as would be determined by a third party. It is possible that a third party would conclude that the fair value of the interest is the amount actually paid, rather than the Adviser's belief as to the fair value of the interest. Additionally, in light of the Adviser's belief that the profit opportunity of these investments will generally be realizable after the interest has been held for an extended period of time, fair is not intended to reflect the value which the interest could actually be sold in the short term.