



AIP Enhanced Income Class
Management Report of Fund Performance
December 31, 2016

Caution Regarding Forward-looking Statements

This report may contain forward-looking statements about AIP Enhanced Income Class (the “Fund”), including its strategy, risks, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refers to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” or negative versions thereof and similar expressions.

These statements reflect management’s current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based on what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.

Management Report of Fund Performance

This management report of fund performance is for the period from January 14, 2016 (date of incorporation) to December 31, 2016. It does not contain the financial statements of the investment fund. You can get a copy, at your request and at no cost, of the financial statements, proxy voting policy and procedures, proxy voting disclosure record or quarterly portfolio disclosure, by calling 416.601.0808, or by writing to us at: AIP Asset Management Inc., 77 King Street West, Suite 4140, Toronto, Ontario M5C 1G3 or by visiting our website at www.aipassetmanagement.com or SEDAR at www.sedar.com

Investment Objective and Strategies

The investment objective of the AIP Enhanced Income Fund (the “Fund”) is to generate superior risk-adjusted investment returns, relative to the Fund’s benchmark, the FTSE/TMX Canada Universe Bond Index, by investing primarily in Canadian income oriented securities, income trusts, convertible and fixed income or other income producing securities.

Risk

The risks associated with investing in the Fund are set out in the prospectus. There were no material changes in the Fund during the period that affected the overall level of risk of the Fund.

Results of Operations

The results of operations is for the period from January 14, 2016, the date of incorporation, to December 31, 2016. However, the Fund did not start operations until April 11, 2016 when it received its first subscription of shares from investors.

As at December 31, 2016, the Fund had two primary classes of shares. Each class began with a Net Asset Value per Share (“the “NAVPU”) of \$10. The Class F shares ended the period with a NAVPU of \$9.74 while Class I ended the period with an NAVPU of \$10.33. Class I shares have a higher NAVPU because (i) Class F shareholders receive a monthly \$0.05 distribution and (ii) Class F shareholders pay a 1% management fee whereas Class I shareholders do not pay a management fee.

The Fund is authorized to issue Class A shares. No such shares were outstanding as at December 31, 2016.

The Fund had net subscriptions of \$14,387,778 during the reporting period. The most significant factor affecting the Fund’s performance is the Fund holding approximately 67% of its net assets in cash which earns a nominal return on investment. By holding a large cash position, the Fund will underperform its benchmark index when fixed income markets are strong and outperform when markets are weak. The Fund’s position in corporate bonds have average maturities of less than two years.

Recent Developments and Outlook

The Fund experienced a surge of subscriptions following its launch date. Cash came in faster than the Fund's ability to deploy it in accordance with its longer strategy and the near term investment outlook.

2016 was a wild ride for equity and bond investors as most major stock market indices went to new highs as many markets returned double digit gains. But it wasn't a smooth market ride. Stocks weathered many bumps along the way and defied gloomy forecasts that followed a global recession scare, Brexit, energy price volatility, uncertainty regarding interest rates, China and the U.S. presidential election of Donald Trump.

Since the U.S. election, the stock market moved higher and higher almost every day, but bonds have lost \$1.1 trillion dollars globally. The majority of the stock market gains occurred in the second half of the year as corporate earnings rebounded, higher growth expectations and energy prices stabilizing. The rally accelerated after the election, as investors bet that Trump would be able to successfully implement his agenda items such a tax cuts, less regulation and increased infrastructure spending.

The only certainty in 2017 is uncertainty. Investors believe that the Trump administration will be able to pass his pro-growth policy agenda thru congress such as cutting corporate taxes, easing regulations, repatriation of overseas cash, and fiscal stimulus package but the passage of his policies are far from certain. Furthermore, immigration restrictions, trade wars with China and Mexico, Brexit, elections in Germany and France, withdrawing from trade deals and imposing tariffs on China are all possible negative effects on economic growth and creates uncertainties.

Efforts by some central banks to stimulate economic growth has resulted in an imbalance of capital flows, as capital has flowed out of countries with negative credit yields to jurisdictions with positive yields. US Treasuries are the primary beneficiaries of these flows especially after the Fed started to increase the bank rate. This has resulted in the widening of credit spreads between US Treasuries and comparable duration corporate debentures.

If the bond market continues to correct, there will be great opportunity to pick up investment grade bonds at a much higher yield. Herein lies the opportunity. The portfolio advisor expects faltering equity prices and rebounding bond yields in the future and intends to diligently monitor economic conditions in Canada and the United States with the view of deploying its vast cash reserve in sectors that offer the most attractive opportunity in bonds as well as secured loans which benefit not just from their higher coupons but also their short durations.

Related party transactions

Management fee

AIP Asset Management Inc. is the manager and portfolio advisor for the Fund (the "Manager"). The Manager is responsible for the Fund's business operations, which includes portfolio

construction for the Fund. The Fund pays an annual management fee of up to 2% of the average net assets of Series A and up to 1% of Series F.

For the period ending December 31, 2016, the Fund paid a management fee of \$17,031.

Incentive fee

The Fund will pay the Manager an annual incentive fee plus applicable taxes of 20% of the difference by which the return in the NAV per share of the applicable series of the Fund, in a calendar year, exceeds the percentage return of the FTSE/TMX Canada Universe Bond Index.

The Fund did not pay a performance fee for the period ended December 31, 2016.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the year ended December 31, 2016. Per share data is derived from the Fund's financial statements.

The Fund's Net Assets per share ⁽¹⁾

For the period ended December 31, 2016	Class		
	F	I	I2
	\$	\$	\$
Net Assets, beginning of period ⁽¹⁾	10.00	10.00	10.19
Increase (decrease) from operations			
Total revenue	0.29	0.34	0.15
Total expenses	(0.14)	(0.06)	(0.04)
Realized gains (losses)			
Unrealized gains (losses)	(0.05)	0.09	(0.03)
Total increase operations ⁽²⁾	0.10	0.37	0.08
Distributions:			
From income (excluding dividends)	(0.38)	-	-
From dividends		-	-
From capital gains		-	-
Return of capital		-	-
Total annual distributions ⁽³⁾	(0.38)	-	-
Net Assets, end of period ⁽⁴⁾	9.74	10.33	10.27

(1) This information is derived from the Fund's audited annual financial statements for the period of January 14 (date of incorporation) to December 31, 2016.

(2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

(3) Distributions were paid in cash and shares of the Fund.

(4) This is not a reconciliation of the beginning and ending Net Assets per share.

Ratios and Supplemental Data

For the period ended December 31, 2016	Class		
	F	I	I2
Total Net Asset Value (\$000's) ⁽¹⁾	\$ 2,324	\$ 11,469	\$ 836
Number of units outstanding (000's)	238,512	1,110,583	81,415
Management expense ratio ⁽²⁾	2.19%	0.86%	1.52%
Management expense ratio before waivers or absorptions	2.19%	0.86%	1.52%
Trading expense ratio ⁽³⁾	0.10%	0.10%	0.10%
Portfolio turnover rate ⁽⁴⁾	15.57%	15.57%	15.57%
Net Asset Value per unit	\$ 9.74	\$ 10.33	\$ 10.27

(1) This information is provided as at December 31, 2016

(2) Management expense ratio is based on total expenses (excluding commission and other portfolio transaction costs) for the stated period and expressed as an annualized percentage of daily average net asset value during the period.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and performance of a fund.

Summary of Investment Portfolio as at December 31, 2016

Sector Allocation	% of Net Assets	Asset Allocation	% of Net Assets
Cash and Cash Equivalent	66.6	Cash and Cash Equivalent	66.6
Corporate Bonds	32.2	Fixed Income	32.2
Information Technology	1.2	Equity	1.2
Total Net Assets	100.0	Total Net Assets	100.0

Geographic Allocation	% of Net Assets	Top 25 Investments	% of Net Assets
Cash and Cash Equivalent	66.6	Cash and Cash Equivalent	66.6
Canada	32.0	Sobeys Inc. 3.522% August 8, 2018	3.4
United States	1.4	Brookfield Asset Management 5.29%, April 25, 2017	2.1
Total Net Assets	100.0	H&R REIT 5.90% February 03, 2017	2.1
		Manitoba Telecom Service 4.59% October 01, 2018	1.8
		Thomson Reuters Corporation, 3.369%, May 23, 2019	1.8
		Canadian National Resources 2.6%, December 3, 2019	1.8
		Transcontinental Inc., 3.897%, May 13, 2019	1.7
		Enbridge Income Fund 5.0%, June 22 2017	1.7
		Canadian National Resources 3.05%, June 19, 2019	1.7
		Shaw Communications 5.70%, March 02, 2017	1.7
		Canadian Western Bank 2.104%, June 26, 2017	1.7
		Dream Office REIT 3.424%, June 13, 2018	1.7
		Bell Canada 4.37%, September 13, 2017	1.4
		Bank of Nova Scotia 4.10%, June 8, 2017	1.4
		Alimentation Couche-Tard 2.86%, November 1, 2017	1.4
		Bank of Montreal 2.24%, December 11, 2017	1.4
		Royal Bank of Canada 2.36%, September 21, 2017	1.4
		Capital Guardian Holdings, LLC 12%, Sept. 29, 2018	1.4
		Carl Data Solutions Inc. 10%, May 30, 2018	1.2
		Carl Data Solutions Inc.	0.7

As at December 31, 2016 the top 25 investments in the Fund are long only. Total net assets are \$ 14,629,106

The summary investment portfolio may change due to ongoing portfolio transactions of the investment fund. The most recent simplified prospectus, annual information form and fund facts document is available by visiting our website at www.aipassetmanagement.com or SEDAR at www.sedar.com.

Corporate Information

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