

AIP

ASSET MANAGEMENT

AIP Convertible Private Debt Fund LP*

(Formerly AIP Global Macro Fund LP)

AIP CONVERTIBLE PRIVATE DEBT FUND

Q4 2021 Commentary

The AIP Convertible Private Debt Fund LP (“Fund”) provides access to senior secured convertible loans to North American small cap companies, with a focus on generating superior risk-adjusted returns. The Fund targets generating synergies and value for the borrower by assisting with growth planning and execution, while the conversion feature allows for participation in equity appreciation.

The Fund’s strategy is to capitalize on a lack of funding for publicly traded small- and micro-cap companies in North America. With investors showing great interest in passive investing strategy, companies that do not fit into an index tend to be overlooked and trade at a significant discount to the rest of the market.

Our experience in the space and a lack of competition allows us to negotiate favourable terms with borrowers. As a senior secured lender, we typically negotiate to have meaningful equity participation in the company.

Performance as at December 31st, 2021 – Class A (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2021	0.52	3.05	1.03	0.10	1.83	-0.35	0.28	0.40	0.32	0.33	0.24	0.63	8.66
2020	0.76	0.55	0.97	0.96	1.49	0.27	0.72	2.32	1.33	1.10	0.53	2.05	13.85
2019	1.07	0.92	1.96	1.15	3.30	0.63	0.62	1.10	0.05	1.96	1.07	2.89	18.15
2018	5.41	-0.46	0.52	1.49	4.28	7.19	4.57	10.70	-0.34	-2.40	1.56	-6.41	28.07
2017	3.26	-0.41	0.53	0.64	1.36	-0.18	-2.88	-0.09	1.99	8.53	9.36	-1.99	21.20
2016	31.65	-0.88	0.87	3.59	-2.28	1.52	2.51	2.35	-0.12	1.01	3.35	-1.15	46.28
2015	4.72	2.28	5.03	-1.52	0.77	2.30	2.52	3.61	4.19	3.59	0.84	34.09	77.04
2014	6.58	6.92	4.90	0.75	2.81	0.48	0.40	6.54	2.70	10.58	2.44	5.15	62.81

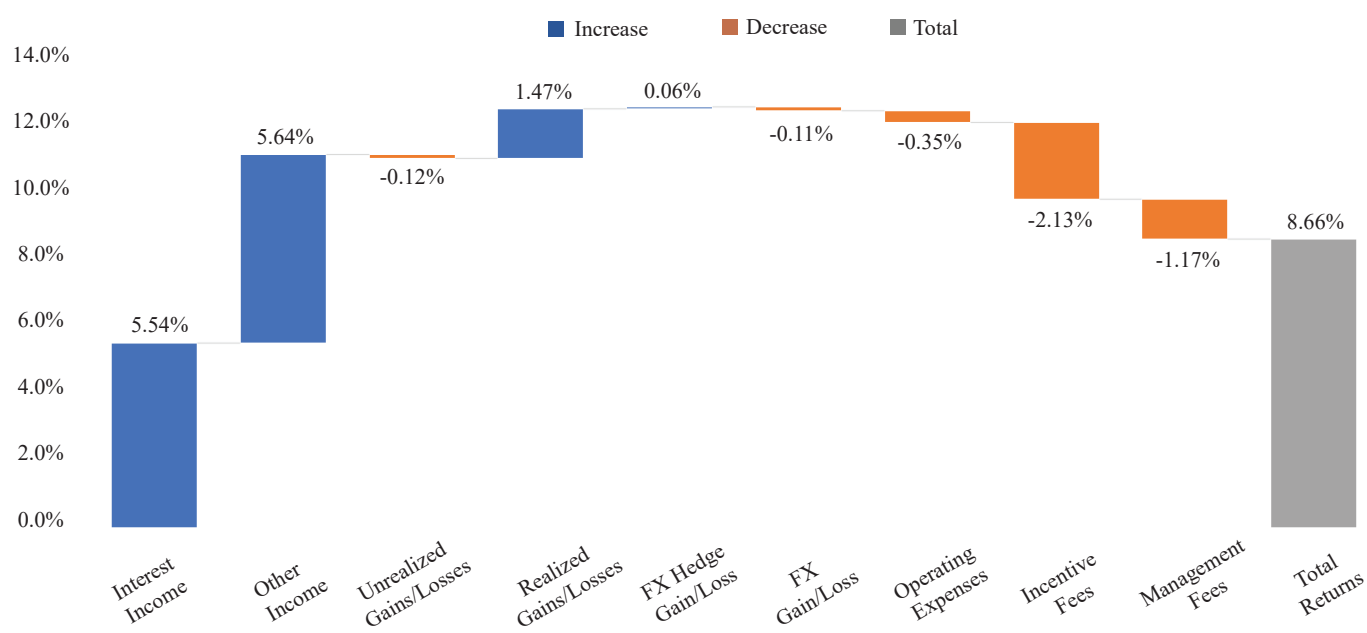
Source: AIP Management

The Fund returned +1.21% to Class A investors for the fourth quarter in 2021 compared to +3.72% for the same period in 2020. Annualized returns for 2021 is 8.66% for Class A units and 9.61% for Class F units. The Net Asset Value of the Fund is \$90.6 million as of December 31st, 2021, which represents YoY growth of 52% from December 2020 NAV.

Through the last quarter in 2021, volatility in the equity markets caused a decline in value on some of the Fund’s equity holdings. This decline was offset by facility fees paid by borrowers for new advances and interest income. Our US Dollar hedging program offset some of the volatility in the currency market.

As seen in the graph below, a significant portion of the unrealized equity upside seen earlier in the year has come down. While these losses impacted NAV, it is important to note that they remain unrealized and future equity volatility can still impact Fund returns positively or negatively. As always, we enter any equity position (by conversion of debt or otherwise) because we believe in the underlying company’s ability to generate positive returns for the business and our investors.

Preliminary Return Attribution 2021



Source: AIP Management

Recent Activity

Our portfolio continues to show signs of strength and additional capital needs are anticipated. In the next few months, we plan to fund several new transactions and exits from two smaller loan positions. Some of the current borrowers have indicated interest in upsizing their current credit facilities.

The Fund recently signed a commitment letter with Issuer 16 for a \$5 million senior secured convertible facility with a 24-month term. Issuer 16 operates a network of over 200 crypto currency ATMs as well as in person locations which facilitate the purchase of Bitcoin. The facility will be used to assist with financing acquisitions and enhancing growth initiatives for this publicly traded company. The Fund's security package includes a General Security Agreement which covers assets of the company, a Corporate Guarantee and Blocked Accounts, as well as a pledge of shares from management. Legal documents are being reviewed by the borrower and we expect the first draw of \$2 million by the end of Q1 2022.

Issuer 9 has had significant interest from outside investors, including a joint venture between two multi-billion dollar companies and a regional utility interested in taking an equity position in the company. One of these companies is conducting technical due diligence in consideration for a potential strategic investment. As per the US\$ 2 million commitment in Q2 2021, AIP issued an additional US \$1 million in notes through Q4 2021. The maturity for the entire position was extended from November 2021 to March 2022 to allow the borrower to complete their financial audit for 2021. These audits are the last piece required before the company intends to being the up-listing process to the NASDAQ, which we expect will bring significant liquidity to the share price and allow for meaningful price discovery. While the upside to this position remains attractive, at this time we are focusing on downside protection should deadlines for financial reporting be missed. This position remains fully collateralized against the companies' prime assets and secured with a Corporate Guarantee, General Security Agreement, share lock ups and proxy votes from controlling shareholders. A recent industry report has valued assets of the company at US\$ 65 million, providing adequate margin against total loan outstanding of US\$21.4 million.

During Q4, AIP advanced an additional \$2 million to Issuer 13 as a bridge to a larger \$4 million secured financing to be approved by the exchange. Issuer 13 invests in global private companies primarily in the Cannabis space. Recently, the borrower has been conducting due diligence on a potential acquisition which provides immigration and citizenship for investment services to High-Net-Worth Individuals globally. This is expected to be an accretive purchase, adding EBITDA and potential synergies to the business, management, and investment portfolio. Due diligence on the acquisition is ongoing, and it is expected that the transaction will close in Q1 2022.

The Fund continues to maintain adequate cash, refusing to compromise on quality of transactions we underwrite. Our pipeline of new transactions is in various stages of underwriting and diligence. We have term sheets signed in the consumer discretionary, financial services, and information technology spaces, totalling \$52.5 million in commitments, and \$28 million being funded at closing. We also expect upsizing within the current portfolio, with Issuers 11 and 13 actively seeking acquisition targets.

Portfolio

As of December 31st, there are six individual borrowers in the portfolio diversified across the financial, healthcare, consumer discretionary, and information technology sectors in North America. Cash interest due from all borrowers in the portfolio has been received to date and all loans are in currently good standing.

Issuer 7's small loan outstanding of \$275 thousand continues to accrue interest as the company pursues an M&A transaction. In Q4 the company signed a non-binding term sheet to acquire a PPE business in Canada. AIP has agreed to extend the loan until the transaction is completed, easing pressure on the management team, and allowing the company to negotiate without burdensome covenants restricting their cashflow. The remaining position is made entirely up of fees and interest accrued on the previous loan in other words, all principal has been repaid. AIP holds \$700k in company equity which is unrestricted as of January 2022. The Fund expects to liquidate equity holdings over the next several months as volume permits.

Issuer 15 has continued to make strides in the medical pain management space, providing alternatives to opioid based therapeutics. The borrower recently finished an additional equity raise of \$2.1 million which flowed in to a blocked account controlled by AIP.

As a reminder, in May 2021, we adjusted our hedging mechanics to use currency options in favor of the rolling FX forward we had been using. During this time of heightened volatility and potential gains for the USD vs CAD, we feel that there is an opportunity to capture upside potential should the USD make a significant positive move. This option strategy allows us to maintain our downside protection while participating in the upside.

With the recent increase in investor interest and investment in the Fund, we are working to transition pipeline deals into funded transactions. Often, it can take several weeks to months to transition a transaction from initial discussions through a term sheet and legal documentation. We have decided to allow limited subscriptions to the fund while we execute on transactions and expect to fund deals in the near future. As the pipeline progresses in the right direction and our cash needs becomes clearer, we will evaluate inflows monthly. This is in the best interest of current and future investors, by allowing our team to focus our efforts on originating and underwriting good transactions.

Outlook

The direct effects of the COVID-19 pandemic have been priced by the markets and news of infection rates have limited impact on investors today. Looking to more traditional economic indicators, our analysis points to several segments of the stock market that have been in bubble territory and are due for a correction. It is our opinion that a correction is needed to bring discipline back to the market and encourage healthy risk taking.

Rising inflation and a more hawkish central bank will translate into a rising interest rate environment for the near future. As noted in our Q3 commentary, inflation continues to be a topic of discussion, sticking around much longer than originally reported. Recently, central bankers have been more hawkish in their stance, signalling interest rate hikes in the near future¹. In such an environment, we expect growth equities to cool off, with traditional old economy businesses fairing better than their high octane counterparts. Our strategy of holding higher cash balances to deploy quickly in to opportunistic investments should benefit from an increase in equity market volatility.

¹<https://www.federalreserve.gov/monetarypolicy/files/monetary20220126a1.pdf>

We still believe that there are good deals to be found in today's market. We continue to search for small cap businesses that have been overlooked by traditional lenders, have growth potential and an immediate use for cash.

The markets remain bifurcated as ETFs and index funds continue to prefer large cap names over small and micro cap stocks. We feel that in some ways the small cap space is insulated from the tremors of headline driven volatility, with equity volumes driven by news of the actual business rather than massive sweeping market shifts. This gap in liquidity and capital was the thesis behind our strategy and still holds true.

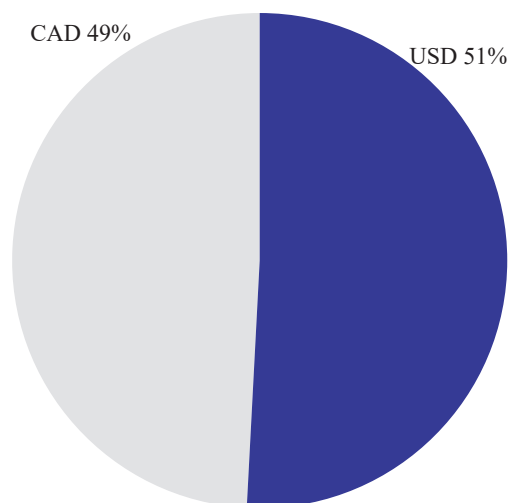
Our deal pipeline is more than \$900 million with over \$137 million in term sheets under negotiation for near term transactions. The bulk of our pipeline growth has come from the Consumer Staples, Financial Services, Digital Music and Consumer Discretionary sectors.

Overview Exhibit A – Portfolio Overview as at December 31st, 2021

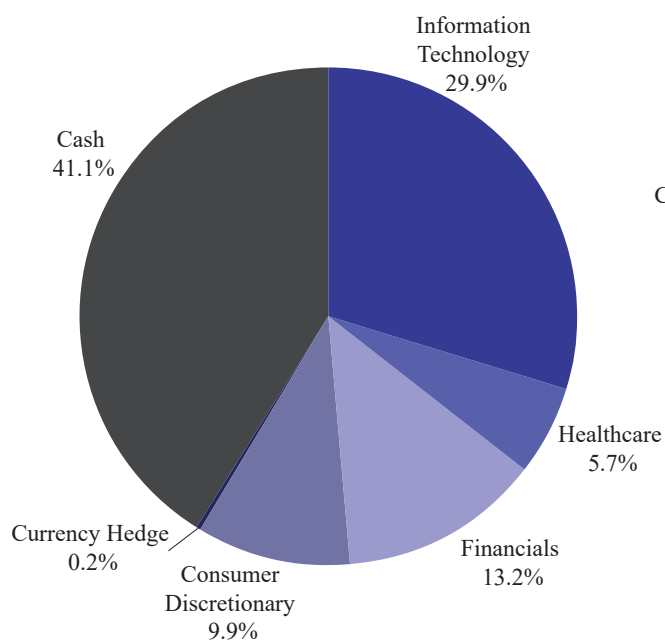
Key Statistics

Portfolio Summary	Dec-31-2021
Loan Amount Outstanding (\$000)	\$44,047
Cash Outstanding (\$000)	\$36,384
Net Working Capital (\$000)	\$904
Equity (\$000)	\$9,165
Other (\$000)	\$149
Portfolio Provision	–
Weighted Average Loan Term (Months)	28.6
Weighted Average TTM (Months)	8.3
Weighted Average LTV	35.3%
Portfolio LTV	26.0%
Average Loan Outstanding (\$000)	\$4,004

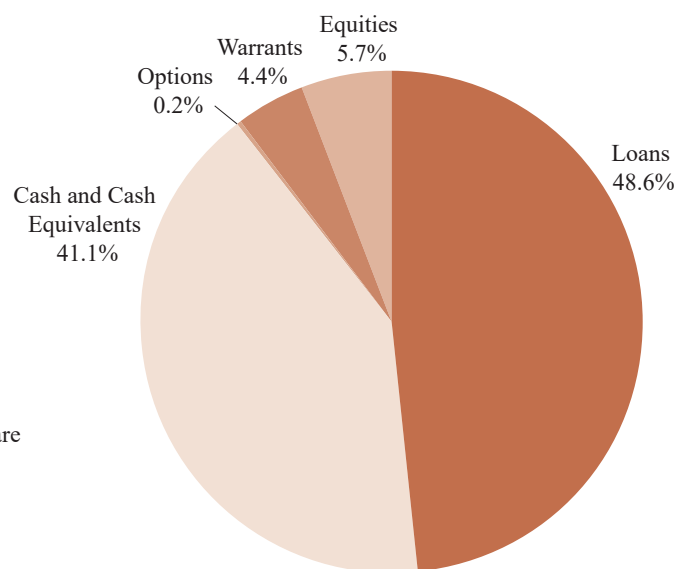
Currency Breakdown (Excluding Cash)



Sector Breakdown



Asset Breakdown



Source: AIP Asset Management

Exhibit B: Loans Outstanding as of December 31st, 2021

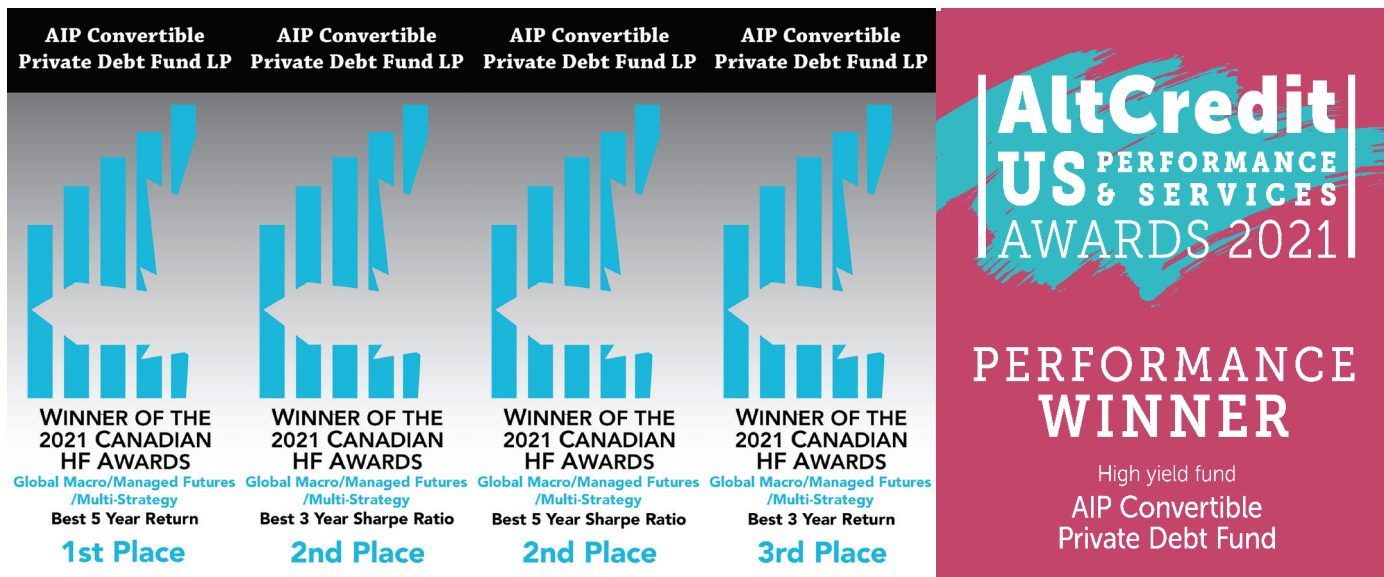
Issuer #	No. of Notes Issued	Location	Industry	Lien	Main Collateral	Estimated Collateral FMV (\$CA '000's)	Loan Amount Outstanding (\$CA '000s)	Loan LTV	Equity Position (\$CA, '000's)	Enterprise Value
7	2	Canada	Healthcare	1 st	All Assets - A/R & Inventory, Subsidiary Shares	3,704	275	7%	742	7,035,900
9	2	USA	Information Technology	1 st	All Assets - A/R, Inventory	82,637	27,105	33%	-	32,506,016
11	1	Canada	Consumer Discretionary	1 st	All Assets - A/R, IP	8,944	6,248	70%	2,735	8,925,008
13	3	Canada	Financials	1 st	Portfolio holdings and related royalties	20,562	6,313	31%	5,672	23,787,356
14	1	Canada	Healthcare	1 st	Unconditional guarantee from Parent, IP, inventory, receivables	23,345	1,367	6%	17	3,527,099
15	2	Canada	Healthcare	1 st	All Assets - AR, Cash, Intangibles	30,086	2,739	9%	-	46,124,833

Source: AIP Asset Management

Fund and AIP Developments

As part of our quarterly valuation process, we have reviewed the independent valuator's report for Q4 2021 and have no material changes to the value of the loan portfolio. We feel this is an important step to take as the fund grows, stemming from AIP's goal of full transparency with current and future investors.

Recently, the AIP Convertible Private Debt Fund LP was awarded recognition at the 2021 Canadian Hedge Fund Awards, placing top 3 in multiple categories. The Fund was also recognized at the Alt Credit US Performance Awards. These wins are attributable to all of us here at AIP Asset Management and we are extremely proud of our team's ability to deliver on promises to our investors.



Source: <https://aipassetmanagement.com/news/news-press-releases/>

Thank you for your investment and continued support, we continue to strive for excellence on behalf of the Fund and our investors.

Jay Bala

CEO and Senior Portfolio Manager
AIP Asset Management
Manager to the AIP Convertible Private Debt Fund LP

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