

AIP

ASSET MANAGEMENT

AIP Convertible Private Debt Fund LP*

(Formerly AIP Global Macro Fund LP)

AIP CONVERTIBLE PRIVATE DEBT FUND

Q1 2022 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 gap in funding primarily 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 combined with a less competitive marketplace which 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 March 31st, 2022 – Class A (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2022	1.99	0.29	0.45										2.74
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

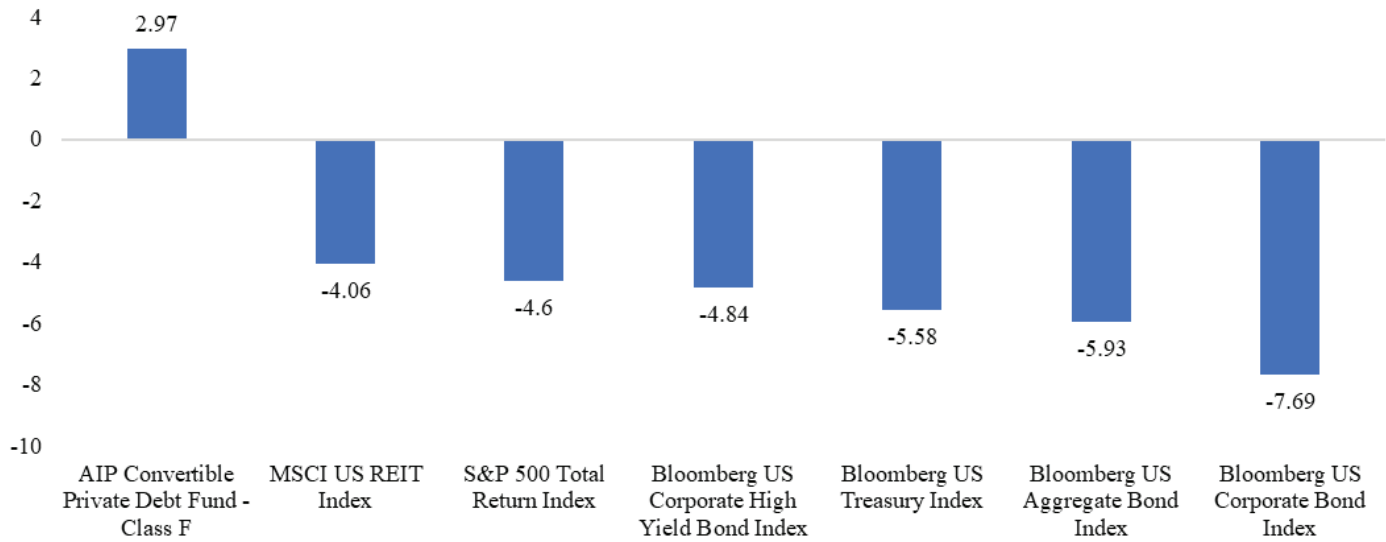
Source: AIP Management

The Fund returned +2.74% to Class A investors for the first quarter of 2022 compared to +4.66% for the same period in 2021. The Net Asset Value of the Fund is \$95.5 million as of March 31, 2022.

In January 2022, a rebound in the equity price of portfolio holdings drove significant mark to market returns. For the remainder of the quarter, returns were driven primarily by contractual coupons on loans; these are paid monthly. Our US Dollar hedging program offset some of the volatility in the currency market.

Recent market volatility has highlighted the importance of diversification in the investment portfolio. A corollary of our thesis on concentration of capital, is that the diversification effects of a 60/40 portfolio are diminished, as seen in recent weeks. It is our opinion that private assets provide true, uncorrelated sources of return to investors while avoiding market capitulation and dislocations. As seen below, the Fund continues to perform as expected in volatile markets.

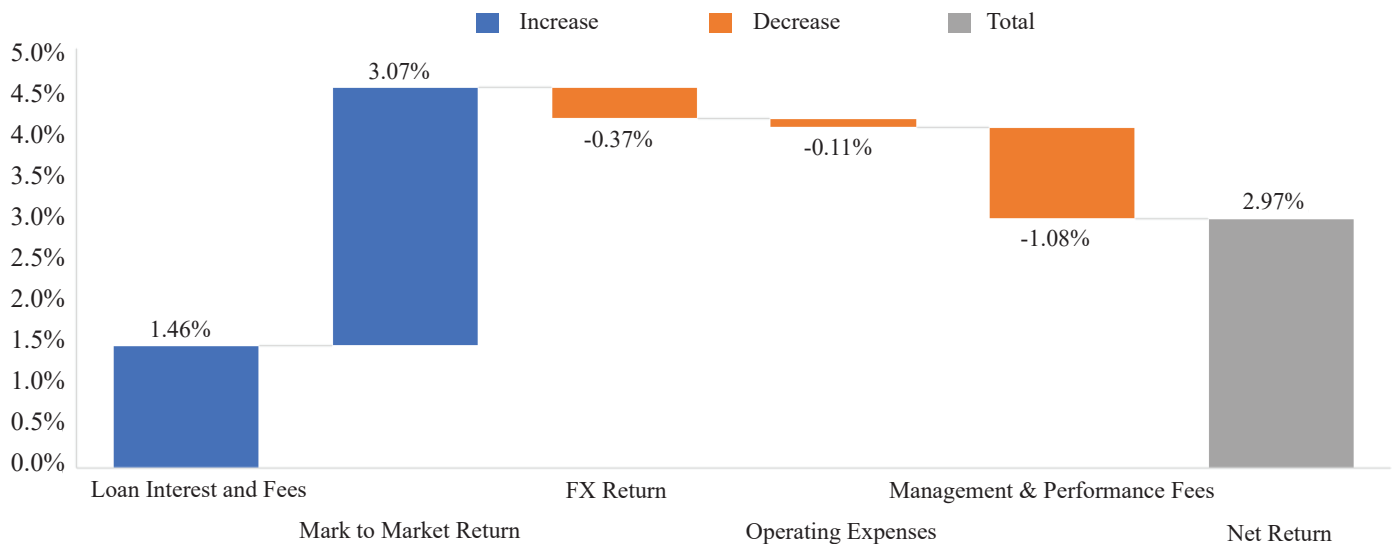
Total Return as of Q1 2022 (%)



Source: AIP Management

It is important to note that significant unrealized gains remain in the portfolio 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.

Performance Attribution Q1, Class F - Unaudited, Management Estimate



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 increased requests are subject to AIP’s credit committee approval.

In February, the Fund advanced USD 2 million into a large Senior Secured Debt facility to Issuer 17. There were multiple institutional participants in this transaction and the full facility is USD 185 million. AIP's position is senior, along with the other lenders in the facility with an overall LTV of 54% at closing. This transaction is in the US Cannabis market which allowed for extremely attractive debt coverage ratios and collateral coverage, a deal that would likely be bankable outside of the industry.

Issuer 9's Notes, expiring in March 2022 were extended on a month-to-month basis subject to prepayment of interest. The Fund is negotiating a more substantive extension which will align with exit through repayment, refinancing or sale of assets. Management at Issuer 9 are amenable to AIP's "asks" and we expect to come to an agreement in the near term. Delays with financial reporting have caused the stock to become untradeable as per SEC ruling in 2021. This restriction on the stock and potential audit costs have the Company's management contemplating taking the company private and re listing once requirements have been met. AIP has several exit options for this position, including the sale of assets valued at ~USD 1 Billion, according to a 2021 industry comparable transaction report by JP Morgan. It is worth noting that the borrower continues to make coupon payments and prepay interest for any extensions that are being given.

Issuer 11 has signed a binding LOI to acquire a large specialty retailer (TargetCo) in Ontario. The transaction is currently in final due diligence and is expected to close within 90 days. AIP will advance \$20 million initially to allow Issuer 11 to acquire the Targetco at ~4x EBITDA. After the acquisition, the Targetco expects to draw ~\$6 million on an existing revolving capital line from a large banking institution, this cash will be used to pay down the Fund's loan. Targetco operates an established business which generated ~6 million in EBITDA over the last 12 months. We expect this transaction to be extremely accretive to the fund, bolstering collateral and interest coverage ratios for the position. After the transaction, we will focus on building the businesses online presence and facilitating a growing ecommerce enterprise.

During the quarter, Issuer 13 signed a binding offer to sell its stake in a portfolio company Viridi for consideration worth \$1 million. This sale is expected to be treated as a windfall for the company as the asset was previously written down to nil value and is an example of realization on value that AIP recognizes in borrower's balance sheets that is sometimes overlooked by other lenders. Proceeds from this sale are expected to pay down some of the existing notes from AIP. Issuer 13 also continues to perform due diligence on a potential acquisition which provides immigration and citizenship for investment services to High-Net-Worth Individuals globally.

The Fund continues to maintain adequate cash of \$35 million, refusing to compromise on quality of transactions we underwrite. Our pipeline of new transactions is in various stages of underwriting and diligence. There are two high conviction transactions in the near-term pipeline that we anticipate closing in the next 90 days. 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.

Portfolio

As of March 31st, there are seven 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.

As of March, a large competitor announced that it had entered a definitive arrangement to acquire Issuer 17 for USD 2 billion. Once approved by the exchange, this transaction will offer the Fund optionality on this position. A change of control clause dictates that the acquirer would have to offer Noteholders 101% of principal plus accrued interest and fees in cash to exit the position. Alternatively, the Fund could decide to stay on as a lender, potentially participate in refinancing and enjoy the reduced credit risk of a larger balance sheet backing the deal.

We expect the exchange approval for our \$4 million secured financing for Issuer 13 to be approved by the exchange in early Q2. This will allow our \$2 million bridge financing to be repaid with secured notes and the execution of other closing conditions including the perfection of security on future assets and additional collateral being deposited in an AIP controlled account.

Issuers 14 and 7 have committed to principal repayment plans which will result in an exit from both positions. Both borrowers will pay cash interest and principal over the next several months and we do not expect them to require additional financing from AIP in the future.

Issuer 15 has continued to make strides in the medical pain management space, providing alternatives to opioid based therapeutics. In Q1, the borrower repaid \$500k in principal reducing the amount outstanding to \$2.5 million. The company expects to continue to make principal repayments to reduce debt on their balance sheet in advance of a potential strategic partnership. AIP continues to support the business and its management in all endeavors.

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.

Outlook

Looking ahead to 2022, it seems that COVID-19 is in the rear-view mirror for much of the industrialized world. Despite some unexpected setbacks, global economies will continue working towards reopening and restarting the growth engine. We still believe that the global trends will benefit real economy stocks and industries, with technology taking a bit of a back seat in a rising rate environment. Rising inflation and a more hawkish central bank will translate into a rising interest rate environment for the near future. 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. We are opportunistic lenders at our core and a new economic reality in rising rates will create opportunities. We feel that the environment will reward nimble managers with dry powder available for deployment. As a result, we continue to raise capital despite current cash levels.

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.

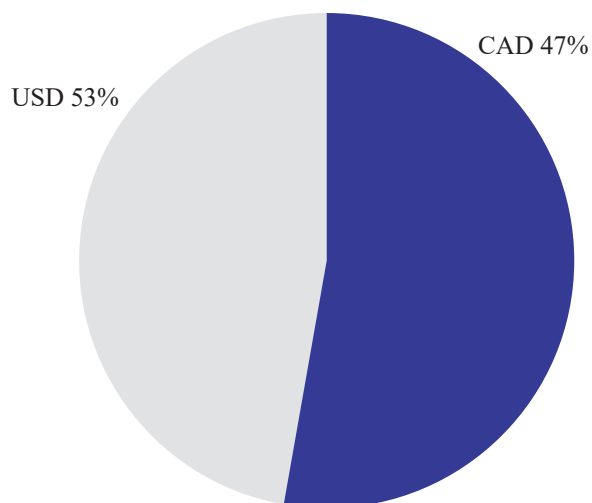
Our deal pipeline is more than \$900 million with over \$71 million in term sheets committed and \$54 million to be deployed at closing for near term transactions. The bulk of our pipeline growth has come from the Consumer Staples, Financial Services, and Consumer Discretionary sectors.

Overview Exhibit A – Portfolio Overview as at March 31, 2022

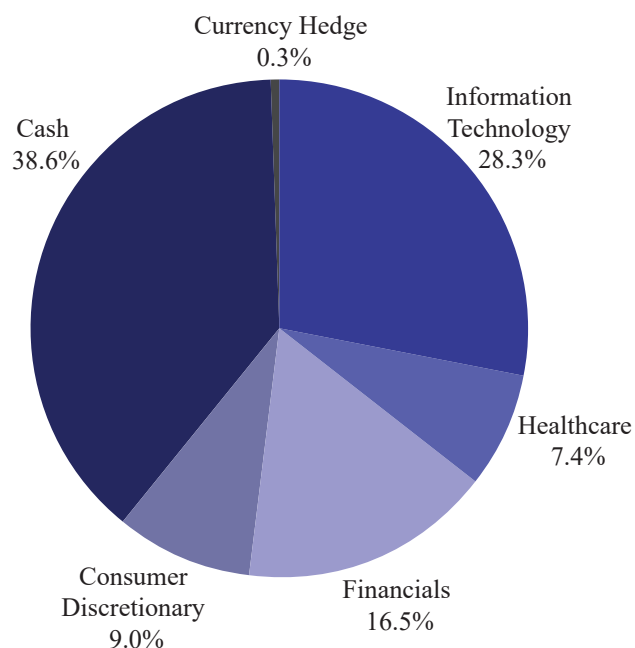
Key Statistics

Portfolio Summary	Mar-31-2022
Loan Amount Outstanding (\$000)	\$46,642
Cash Outstanding (\$000)	\$35,847
Net Working Capital (\$000)	\$1,006
Equity (\$000)	\$11,750
Other (\$000)	\$288
Weighted Average Loan Term (Months)	28.3
Weighted Average TTM (Months)	9.8
Weighted Average LTV	44.3%
Portfolio LTV	32.5%
Average Loan Outstanding (\$000)	\$3,588

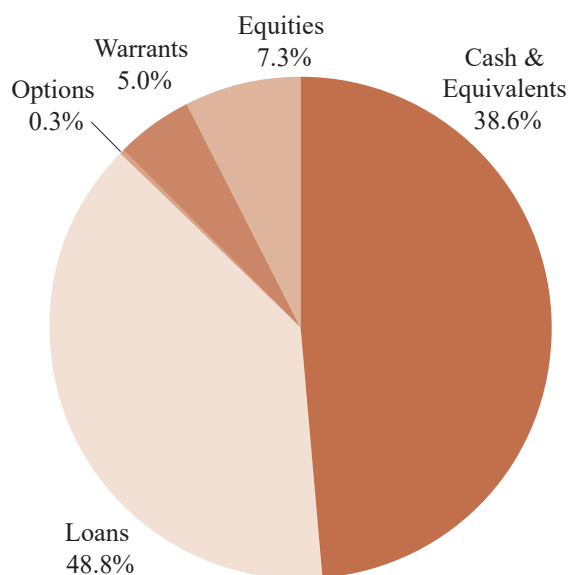
Currency Breakdown (Excluding Cash)



Sector Breakdown



Asset Breakdown



Source: AIP Asset Management

Exhibit B: Loans Outstanding as of March 31, 2022

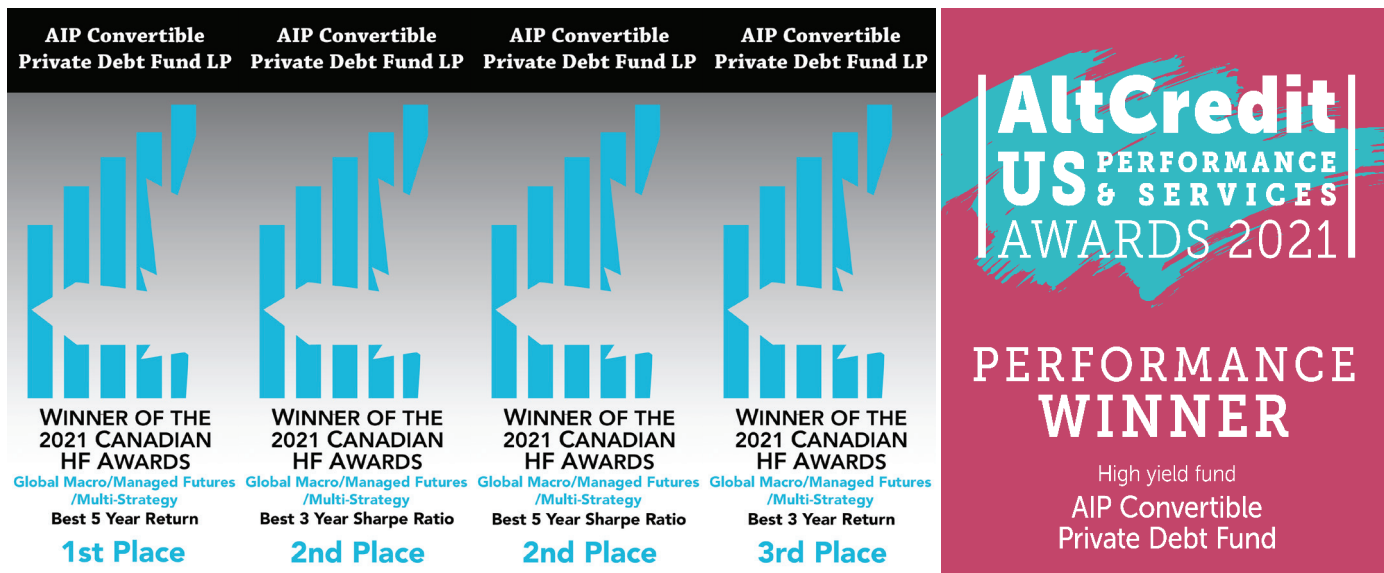
Issuer #	No. of Notes Issued	Location	Industry	Lien	Main Collateral	Estimated Collateral FMV (\$CA '000's)	Loan Amount Outstanding (\$CA '000s)	Loan LTV	Equity Position (\$CA, '000's)	Enterprise Value
7	2	Canada	Healthcare	1 st	All Assets - A/R & Inventory, Subsidiary Shares	3,871	142	4%	969	6,895,204
9	2	USA	Information Technology	1 st	All Assets - A/R, Inventory	81,358	27,003	33%	-	32,506,016
11	1	Canada	Consumer Discretionary	1 st	All Assets - A/R, IP	8,626	6,284	73%	2,338	9,150,966
13	4	Canada	Financials	1 st	Portfolio holdings and related royalties	17,700	7,312	41%	8,425	22,965,513
14	1	Canada	Healthcare	1 st	Unconditional guarantee from Parent, IP, inventory, receivables	15,181	1,001	7%	17	4,344,304
15	2	Canada	Healthcare	1 st	All Assets - AR, Cash, Intangibles	13,008	2,369	18%	-	26,379,280
17	1	Canada	Healthcare	1 st	All Assets - AR, Cash, Intangibles	3,689	2,531	69%	-	1,534,283,944

Source: AIP Asset Management

Fund and AIP Developments

As part of our quarterly valuation process, we have reviewed the independent valuator's report for Q1-2022 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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