

AIP Convertible Private Debt Fund LP

Q4 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:

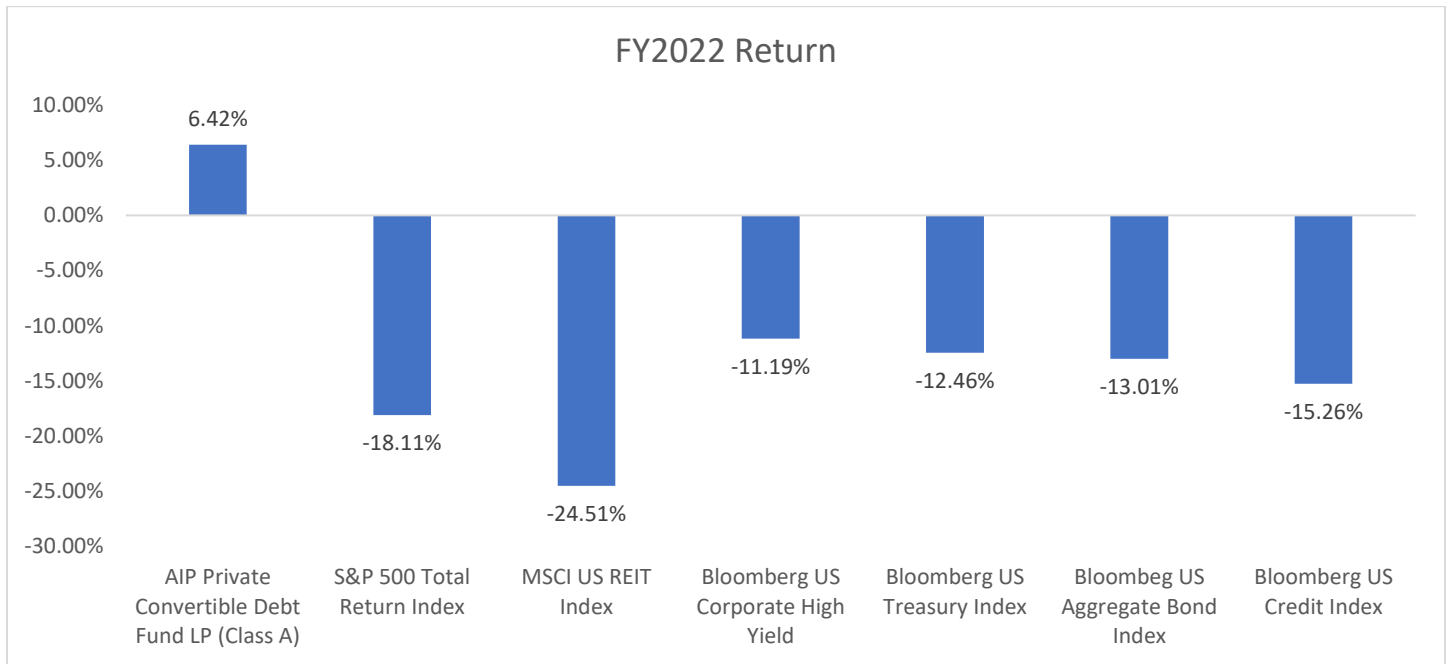
As of December 31st, 2022 – AIP Convertible Private Debt Fund LP Series A (%):

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2022	1.99	0.29	0.45	0.02	0.37	1.07	0.41	0.45	0.41	0.25	0.20	0.34	6.42
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

The Fund returned +0.79% to Class A investors for the fourth quarter of 2022 compared to +1.21% for the same period in 2021. The Net Asset Value of the Fund is \$86.1 million as of December 31st, 2022.

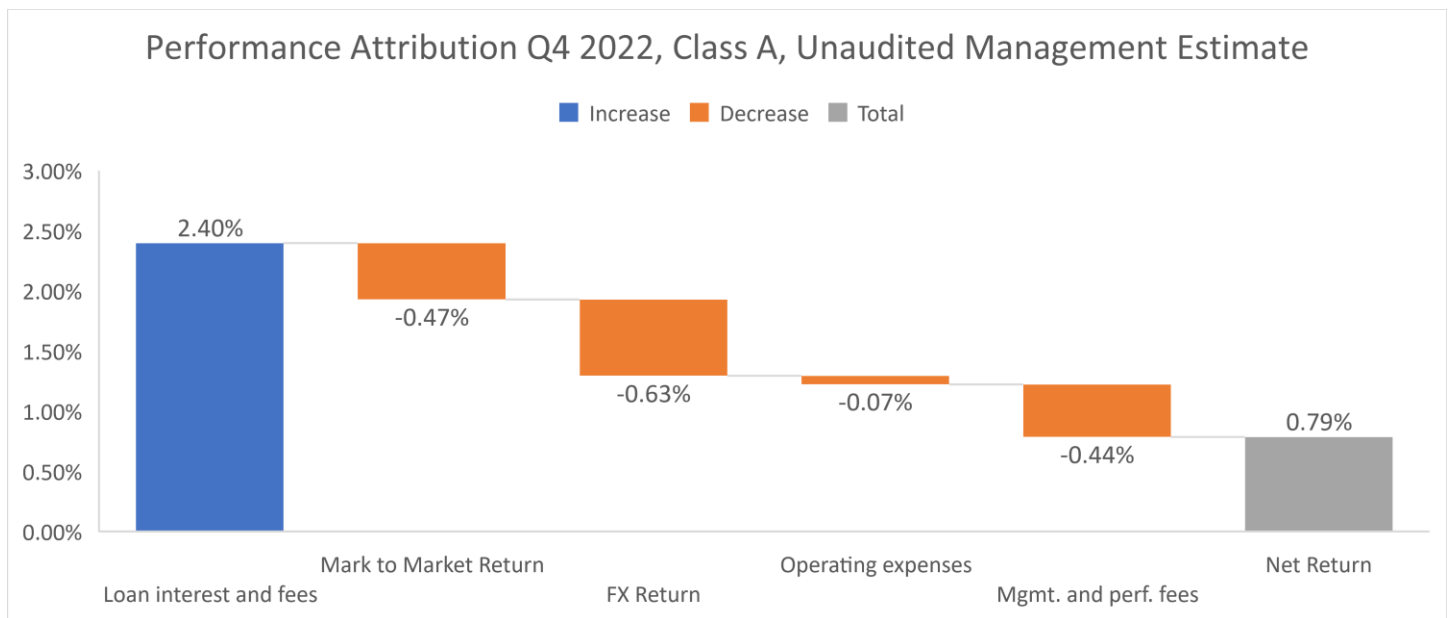
The Fund continues to employ its US Dollar Hedging program, which offsets some of the volatility in the currency market by purchasing short-medium term puts on the USD/CAD rate. Using the program, the Fund has typically been able to capture the upside momentum associated with the relative strength of the US Dollar. However, in the fourth quarter, the Canadian Dollar strengthened causing an offset to some of the associated historical returns. This Fund’s return was also impacted by provisions recorded across the portfolio. These provisions are unrealized accounting losses on the portfolio due to mark-to-market valuation performed by our independent valuation agent. This is primarily a result of increasing credit spreads on our benchmarks, leading to an unrealized accounting loss.

Market volatility remains and highlights the importance of diversification in the investment portfolio. The diversification benefits of a 60/40 portfolio are diminished in the current economic environment. 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.



1

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.



¹ Source: Bloomberg, AIP

Recent Activity:

We continue to monitor the market with the anticipation to opportunistically participate in club transactions with large institutional syndicate partners to further diversify the portfolio and manage cash. We will only invest in transactions that demonstrate strong risk-adjusted returns. At the end of the quarter, we have participated in two new club transactions and are actively reviewing several transactions.

Issuer 21 is a leading supplier of equipment and services in the freight transportation market. It has a global presence and by purchasing into the syndicate, AIP was able to diversify its portfolio while continuing to maintain conversion rights for opportunistic exits.

Issuer 22 operates a diversified business by providing industrial chemicals and services. It is one of the largest in North America with various end markets such as water treatment. Similar to Issuer 21, this transaction represents an attractive opportunity with conversion rights to access attractive exits.

Issuer 7 has made consistent and regular principal paydowns through the term of the loan. The borrower has fully repaid its credit facility and the Fund continues to hold approximately \$881K of equity in the company, which represents ~1% of the Fund. The company is in the process of completing its audit and continues to work on several M&A opportunities. We continue to monitor the position and opportunistically look to fully exit the transaction.

Portfolio:

As of December 31st, there are ten 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 11 continues to evaluate potential acquisitions to bolster its collateral position and take advantage of potential synergies it can offer. Furthermore, the company extended the original maturity of senior secured notes with monthly principal paydowns of \$20K, in which the company made its first paydown in December 2022.

Issuer 13 continues to review several potential acquisitions. Due to the strong industrial real estate market, AIP is also actively looking to accelerate the sale of underlying properties to secure a paydown on existing notes.

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 continue to feel that there is an opportunity to capture upside potential should the USD continue its strength. This option strategy allows us to maintain our downside protection while participating in the upside.

In 2022, the Fund issued six new loans to six new issuers and had two exits. Thus far in 2023, AIP has invested in an additional one. Loan sizes range from \$160K to \$2.6 million. New investments have been focused on the higher end of the small cap market spectrum with Secured Debt/EBITDA ranging from 1.6x to 4.7x. Given the volatility in the market and lack of optimal financing solutions in the market, we expect robust activity in the convertible debt market.

Outlook:

Inflation continues to be a concern. Although, we expect to see rate hikes to continue in Q1 2023, we believe it will be at a slower pace. We are cautiously optimistic that the days of 75bps of rate hikes are behind us and that future rate hikes will be in the 25 bps to 50 bps range.

The impact of higher interest rates will take time to work through the economy, especially with lagging indicators that are often pointed to in the media. We expect equity markets to remain volatile throughout 2023 as improvements in the inflationary environment will be offset by weaker earnings reports. While we have already started seeing the negative impact in earnings, there is the possibility of additional downside in the major indices. As higher costs of borrowing take hold of consumers and corporations alike, investors may seek out a flight to safety and further reduce holdings in various “risk on” assets. There is also the premise of “good news is now bad news”, which infers that better-than-expected economic results will be met with stronger central bank tightening. For example, in the most recent US non-farm payroll report, 517,000 jobs were added, a staggering difference to the estimate of 197,000 jobs in January. This led markets to price in continued interest rate hikes. The Fund strategy continues to perform well in volatile markets, up 0.79% in Q4 2022. This is the opportunity that we love to see, and precisely the reason the Fund has been holding cash to tactically deploy over the last year.

As central bank policies reverberate throughout the economy, key figures such as Federal Reserve Chairman Jerome Powell have noted the disinflation process has begun. However, that typically entails weaker corporate earnings, higher employment figures and fewer housing starts. In contrast, while inflation has begun to decrease, corporate earnings and employment figures have remained robust. Markets have correspondingly rallied though skeptics remain on both sides. We believe that there will be continued volatility in which depressed equity valuations and economic uncertainty present the best buying (and lending) opportunities. When we are one of the select lenders in the market, which gives us the ability to negotiate strong downside protection through collateral and covenants while maintaining attractive conversion strikes to ride any upswing.

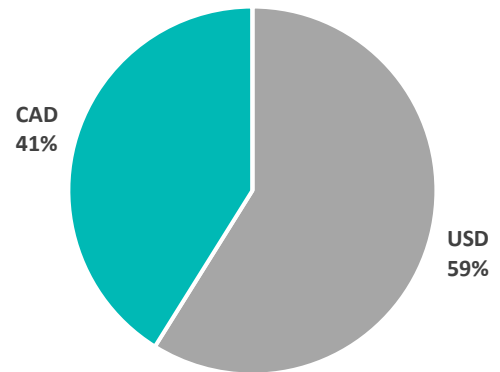
The transaction pipeline remains robust and AIP continues to maintain deal selectivity. In 2022, financing via convertible debt issuances was at its lowest levels in 25 years due to borrowing costs. We expect a sharp rebound in 2023 and small, opportunistic funds with large cash reserves such as AIP are positioned to benefit.

Exhibit A – Portfolio Overview as of December 31st, 2022:

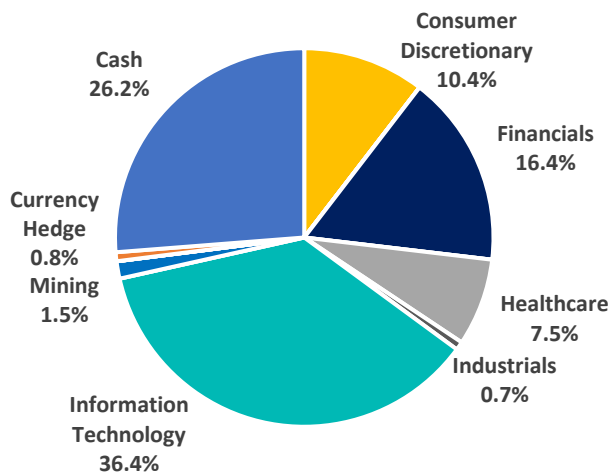
Key Statistics

Portfolio Summary	31-Dec-2022
Loan Amount Outstanding (\$000)	\$53,668
Cash Outstanding (\$000)	\$21,514
Net Working Capital (\$000)	\$1,083
Equity (\$000)	\$9,185
Other (\$000)	\$656
Weighted Average Loan Term (Months)	35.9
Weighted Average TTM (Months)	6.9
Weighted Average LTV	37.5%
Portfolio LTV	34.4%
Average Loan Outstanding (\$000)	\$3,578

Currency Breakdown (Excluding Cash)



Sector Breakdown (% of NAV)



Asset Breakdown (% of NAV)

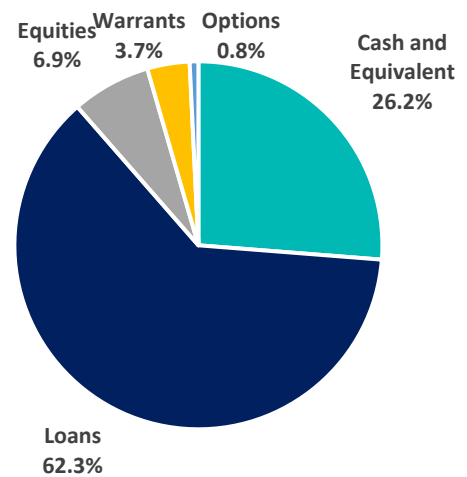


Exhibit B: Loans Outstanding as of December 31st, 2022:

Issuer No.	# of Notes Issued	Location	Industry	Lien	Main Collateral	AIP Estimated Collateral FMV (\$CA '000's) ¹	AIP Loan Amount O/S (\$CA '000s) ¹	Loan LTV	AIP Equity Position (\$CA, '000's)	Enterprise Value (\$CA '000s)
7	0	Canada	Healthcare	1st	All Assets - A/R & Inventory, Subsidiary Shares	-	-	N/A	880	6,902
9	2	USA	Information Technology	1st	All Assets - A/R, Inventory	110,353	31,369	28%	-	76,794
11	2	Canada	Consumer Discretionary	1st	All Assets - A/R, IP	8,917	6,976	78%	2,003	10,192
13	2	Canada	Financials	1st	Portfolio holdings and related royalties	18,903	7,865	42%	6,297	21,480
14	0	Canada	Healthcare	1st	Unconditional guarantee from Parent, IP, inventory, receivables	-	-	N/A	4	2,609
15	3	Canada	Healthcare	1st	All Assets - AR, Cash, Intangibles	7,799	2,273	29%	-	10,849
17	1	Canada	Healthcare	1st	AR, Inventory, PP&E	4,047	2,680	66%	-	655,484
18	1	Canada	Mining	1st	Subsidiary shares and rights under JV	1,655	591	36%	-	992,751
19	1	Canada	Mining	1st	Cash, A/R, Inventory, PP&E	2,560	690	27%	-	644,884
20	1	Canada	Healthcare	1st	Cash on hand, A/R, Inventory, Biological Assets, PP&E	1,389	603	43%	-	4,400,506
21	1	USA	Industrial	1st	Cash, A/R, Inventory, PP&E	997	135	14%	-	2,560,776
22	1	Canada	Industrial	1st	Cash, A/R, Inventory, PP&E	843	485	58%	-	1,871,760

Fund and AIP Developments:

AIP was nominated in five categories and won best alternative fund in Credit – Relative Value Under \$500MM at the 2022 HFM US Hedge Fund Performance Awards. The 2022 HFM US Hedge Fund Performance Awards are considered to be the most important and influential within the US Hedge Fund industry, with many well-established funds vying for recognition.

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

Jay Bala

	 <p>AIQ 2022 CANADIA</p> <p>Global Macro/Managed Future/ Multi Strategy</p> <p>Best 5Yr Return</p>	 <p>AIQ 2021 CANADIAN</p> <p>Global Macro/Managed Future/ Multi Strategy</p> <p>Best 5Yr Return Best 3Yr Return</p>	 <p>Performance Winner High-Yield Fund</p>	 <p>Award in Recognition of Support for UN's SDGs</p>
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