AIP Convertible Debt Fund
December 2019

Convertible Debt Overview

1. What is Convertible Debt?

Convertible debt is type of fixed income security that yields interest payments, but can be converted into a predetermined number of equity shares. The conversion from the fixed income security to equity can be done at certain times during the security's life and is usually at the discretion of the bond holder.

2. Why invest in Convertible Debt?

Convertible debt provides an investor with the benefits of both fixed income and equity investments. The stated coupon on the debt provides consistent yield to the investor, while the conversion option creates the potential for upside should the equity value increase.

AIP Convertible Debt Fund

1. What is the manager's background?

AIP Asset Management is a Toronto based investment manager. As of October 2019, AIP manages ~$95 million in AUM across the AIP Convertible Debt Fund and separately managed accounts.

In 2019, AIP's Global Macro LP won the Canadian Hedge Fund Awards' Best 1 year, 3 year, and 5 year returns in the private debt category. In 2017, AIP's Convertible Debt Fund won Hedgeweek's Award for Best Macro Hedge Fund.

Also, in 2017, the AIP Hedge Fund won the Sustainable Development Goals (SDG) Recognition Award – UN Association in Canada, Toronto Branch. In 2014, Jay Bala, CEO and Senior Portfolio Manager of AIP Asset Management, was a nominee for the Ernst & Young Entrepreneur of the Year Award.

AIP Asset Management was founded in 2013 and is entirely employee owned.

2. Why invest in the AIP Convertible Debt Fund?

AIP uses a top down industry analysis to identify favorable sectors based on current macro themes. The Fund is comprised of senior secured convertible loans with the potential to capture growth from the underlying firms' equity. By assisting a borrower with their growth and acquisition plans, AIP focuses on increasing synergies and solidifying going concern for the business.

Loans in the portfolio are fully supported by collateral and senior liens on critical assets of the borrower. The over collateralization with a preference for self-liquidating assets helps to protect the Fund from downside risk in the case of loan work out. In addition to disciplined underwriting and monitoring, AIP pursues all avenues to mitigate risk including corporate/personal guarantees, confessions of judgement and blocked accounts.

A convertible loan structure provides the unique opportunity to participate in equity growth. As AIP provides cash for working capital, small/micro-cap companies can develop their businesses and produce revenue streams at a faster rate than previously priced in. Should the equity value increase, AIP is able to convert the debt into the higher valued equity and realize a gain on the open market.

3. Does this fund invest in equities?

In general, the fund may hold the equity or warrants of a portfolio company as a result of a converted loan or bonus share issuance. The AIP Convertible Debt Fund has a controlled method of reducing their equity positions as soon as possible, without having a negative effect on the share price of the portfolio company.

4. Where does the volatility come from in this fund and how is it mitigated?

The Fund invests in convertible debt securities. These can be converted into equity under certain circumstances. The Fund may also receive warrants on occasion. To dampen volatility, AIP structures the convertible loans and the timing of the Fund's conversions such that the Fund can dispose of the vast majority of shares acquired shortly after conversion. In addition, shares received by the Fund are restricted from sale, typically for four to six months, during which time the Fund discounts the value of such shares using a model developed by the Fund; this discount also dampens volatility. In instances where the Fund anticipates receipt of a large number of shares, the Fund and issuer negotiate restrictions longer than four months and one day, subject to exceptions for large price increases and volume, which also dampen volatility.

This approach to the equity valuations has had a significant effect on portfolio volatility, noticeably reducing it since early 2019.

5. Are the fund's investments still in Senior Secured Credit?

Most of the Fund's initial investments are in Senior Secured Debt. The investment process dictates that negotiated loans are well collateralized senior loans with a conversion feature. Credit is underwritten to the collateral available, and the loans are priced accordingly. Debt Internal Rate of Return is targeted at 9-12% without the conversion feature and the underlying collateral is fundamental to the downside protection on the loans.

6. Who does AIP lend to?

AIP's focus is on Canadian and US small- and micro-cap companies with generally less than a $100 million market capitalization. These companies tend to be nearing IPO or already listed on a public stock exchange.

7. Why do borrowers come to AIP?

Small and micro-cap companies have historically had difficulty borrowing from traditional lenders. These companies require capital infusions to grow and make strategic acquisitions, but without a reliable source of cash, they operate in an inefficient market. AIP is positioned to lend to these companies at pivotal moments, creating a positive outcome for both the company and the AIP.

8. **How does AIP originate transactions?**

   Deals are sourced through deep industry relationships with potential borrowers. As former entrepreneurs who have been company operators, the AIP founders understand the needs of borrowers at the small and micro-cap level, and as a result can identify potential transactions for the Fund.

   Each origination steps through multiple levels of due diligence, including on-site visits, in-person interviews, multiple credit committee reviews and background checks before being added to the portfolio.

9. **How is my investment allocated?**

   AIP maintains a portfolio and pipeline of convertible private loans. Investments in the fund will be allocated according to the strategy outlined in the Offering Memorandum.

10. **What risks are associated with investing in the AIP Convertible Debt Fund?**

    All private credit investments are subject to elements of risk. Loan capital is affected by the borrower's ability to repay the principal and interest while adhering to the specified covenants. Loan transactions face credit risks, in the case of default the principal and income can be lost on a loan. Loans converted to equity can face market volatility and liquidity risk. However, AIP has had a history of low loan losses.

11. **What is the typical loan term?**

    The typical loan term is between 6 and 24 months.

12. **How does AIP exit investments?**

    AIP has multiple exit strategies for its investments, loan repayment and equity conversion. AIP looks to work with the management teams of portfolio companies to grow the business either organically or through acquisition.

    As the companies grow, their market value may increase and therefore AIP has the option to reduce their Value at Risk by converting portions of their debt to equity and sell in the open market at a higher price. This equity conversion is how AIP can capture the upside potential of small cap investments.

    While portions of the loan are converted to equity throughout its life, AIP seeks capital returned through repayment at maturity. The company will pay back remaining principal typically with cash received from M&A or loan refinancing.

13. What risk control / oversight measures are implemented?

Deal structuring provides AIP with protection in the case of work out, where loans are set up with a senior lien on critical assets, overcollateralization throughout loan term and dominion over borrower cash.

Each potential transaction undergoes extensive due diligence by the AIP investment team. The average deal takes around 2 months of research before being given approval for addition to the fund. The due diligence and underwriting process consists of several layers including: management and stakeholder meetings, field audits, third party asset appraisals and stress testing.

The portfolio also undergoes rigorous monitoring, including monthly borrowing base and collateral reviews and risk rating refresh. As loans mature, AIP continues their periodic site visits and field exams to ensure that collateral value is properly stated.

14. What are the fees for the Fund?

<u>Class A Units:</u>
The Partnership will pay the Advisor, monthly on the last Business Day of each month, a fee (the "Management Fee") equal to 1/12 of 2% of the aggregate net asset value of all Class A Units of the Partnership then outstanding. A "Business Day" is a day on which the Toronto Stock Exchange and the New York Stock Exchange are open for business.

<u>Class F Units:</u>
The Partnership will pay the Advisor, monthly on the last Business Day of each month, the Management Fee equal to 1/12 of 1% of the aggregate net asset value of all Class F Units of the Partnership then outstanding.

Investors will be subject to a quarterly performance fee of 20% of the increase in the net asset value of each Unit from the High-Water Mark for such Unit. The "High Water Mark" for a Unit issued more than 12 months before the Performance Valuation Date is the highest Net Asset Value per Unit on each of the four previous Performance Valuation Dates. The "High Water Mark" for a Unit issued less than 12 months before the Performance Valuation Date is the highest of the Net Asset Value per Unit on the date of issuance of the Unit and on each subsequent Performance Valuation Date, if any, prior to the Performance Valuation Date on which the Performance Amount is to be paid.

15. What is the lock-up period?

24 months. Investments redeemed within 12 months of subscription date are subject to a 5% penalty for early redemption. Investments redeemed within the second 12 months of subscription date (year 2) are subject to a 1% penalty for early redemption.

16. How is the investor taxed?

For income tax purposes, the returns that investors receive are treated as a mix of interest income and capital gains. The split is determined at year end and is based on the proportion of income generated by conversion to equity and sale.

For example, T5013 TAX YEAR END SLIPS ARE ISSUED - The different types of income, capital gains, losses and expenses that are allocated to the LP unitholders on a pro-rata basis are reflected on his/her T5013 tax slip, which is mailed annually to them by March 31 for the preceding calendar year. The T5013 includes amounts you must include in your tax return. The T5013 also includes supplementary amounts that may assist you in calculating the Adjusted Cost Base of your investment in a LP.

Please seek professional tax advice for further information.

17. Is leverage utilized?

Leverage is not currently being utilized, but the Fund intends to use leverage subject to conditions put in place by the partnership's prime broker.

Please refer to the Offering Memorandum.

18. Liquidity / Redemption of units

Redemptions are funded monthly and require 180 days advance notice at a minimum.

Please refer to the Offering Memorandum.

19. Subscription process

The minimum initial subscription amount is $25,000 for an investor that qualifies as an accredited investor in Ontario, the $150,000 minimum investment exception is also available to non-individual. No subscription for units will be accepted from an investor unless the manager is satisfied that the subscription is in compliance with the requirements of applicable securities legislation.

Note: All new purchases are booked into a new monthly series with a starting NAV of $10.

Fund Codes:
Class A - AIP 100
Class F – AIP 200
Post trade on Fund SERV.
Settlement Period is T+2 for purchases and T+10 for redemptions.

Dealers/Advisors **<u>are required</u>** for **<u>all purchases</u>** to deliver a **<u>copy</u>** of the completed Subscription Agreement **<u>on the date the order is placed. No exceptions.</u>**

<u>**For sales inquiries, please contact:**</u>

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AIP Asset Management has entered into an agreement with Ninepoint Partners LP (“Ninepoint”) pursuant to which Ninepoint will distribute the Class A and Class F Non-Voting Common Shares offered hereunder for Global Macro LP Fund (the “Fund”).