

AIP

ASSET MANAGEMENT

AIP Convertible Private Debt Fund LP\*

(Formerly AIP Global Macro Fund LP)

## AIP CONVERTIBLE PRIVATE DEBT FUND

Q1 2020 Commentary

The AIP Convertible Private Debt Fund (“The Fund”) provides access to senior secured convertible loans to North American small cap companies, with a focus on generating superior risk-adjusted returns and capital protection. Our transactions have a focus on generating synergies and value for the borrower by assisting with growth and acquisition planning and the conversion feature in our loans allows the Fund to participate in equity appreciation.

The strategy of the fund works to capitalize on a drought of funding in the small/micro cap space in North America. With the rush of investors flocking to a passive investing strategy, companies that do not fit in to an index tend to be overlooked and trade at a steep discount to the rest of the market. Companies which previously traded at 5x-12x EBITDA can now be purchased at 1x to 4x EBITDA, with lenders practically non-existent. As previous entrepreneurs we have experience with the difficulty in raising capital that these companies face.

Our experience in the space and a lack of competition allow us to negotiate extremely favorable terms with borrowers, perfecting our security on senior secured loans while participating in any equity appreciation that results.

### Performance as at March 31st, 2020 – Class A

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2020	0.76	0.55	0.97										2.29
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	33.20	-0.60	1.90	3.60	-2.30	1.50	2.50	2.40	0.10	1.00	3.40	-3.82	46.28
2015	4.70	2.30	5.00	-1.50	0.80	2.30	2.50	3.60	4.20	3.60	0.80	34.12	77.04
2014	6.60	6.90	5.00	0.70	2.80	0.50	0.40	6.50	2.70	10.60	2.40	5.16	62.81

Source: AIP Asset Management

The fund returned +0.97% for the month of March.

The return for the quarter is attributable to strong performance of the loans outstanding, renegotiation of terms with current borrowers, and an active currency hedging program in place which captured the USD appreciation relative to CAD. With global credit spreads widening and credit quality deteriorating, AIP is in contact with our borrowers and monitoring the portfolio for signs of stress. As of March 31, 2020, all loans are performing and in good standing.

### Market Outlook

The shock of COVID-19 to the global markets has been swift and resonated across all asset classes. In March 2020, we saw global equity indices down 13%-20% and the FTSE Canada Convertible Bond Index down 15.1%. The effects on the global economy are still emerging with leading indicators showing that the downturn will be quite severe in the coming months.

Governments and central banks have been issuing stimulus packages at an unprecedented rate, working to bolster the damaged economy, with Canada’s package totaling \$102 billion. Despite the fiscal and monetary measures, TD Bank forecasts a sharp decline in Q2 2020 growth, with about -23% (quarter over quarter, annualized) in Canada and about -25% in the US<sup>(4)</sup>.

GDP	Q/Q				Annual Averages		
	20Q1	20Q2	20Q3	20Q4	2019	2020	2021
US (saar)	-3.0	-25.0	15.0	0.0	2.3	-3.5	2.0
Canada (saar)	-4.3	-23.0	16.0	0.0	1.6	-3.7	2.3
UK	-1.4	-12.9	9.1	1.0	1.4	-6.5	3.6
Euro Area	-1.6	-14.9	10.3	0.8	0.8	-7.6	3.1

Source: TD Securities

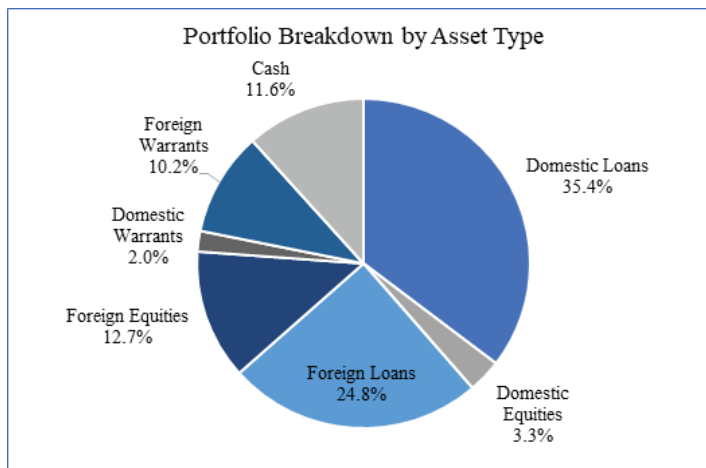
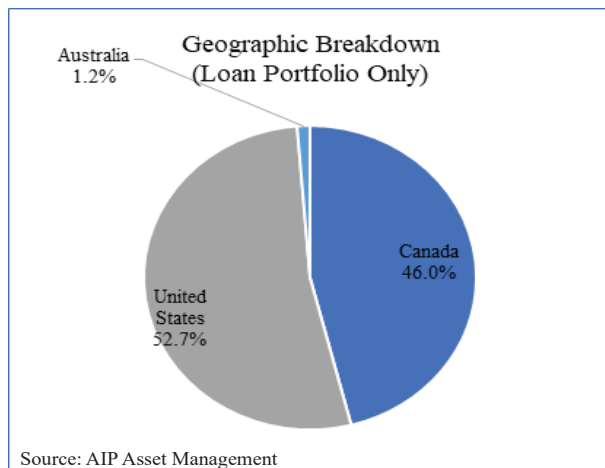
With the implementation of the shutdown of non-essential businesses, unemployment in Canada has increased to 2.7 million<sup>(3)</sup>. School closures and social distancing measures implemented to limit the spread of the virus have had consequential impacts to local economies. As of April 13th, there are approximately 24,000 total cases<sup>(1)</sup> in Canada, with that number growing exponentially.

Global uncertainty regarding the economic impact of COVID-19 has driven market volatility to record levels according to the CBOE Volatility Index. The markets are reacting quickly as new information is released and there have been a number of drastic momentum shifts.

The private markets have not had the same drop and surge that we saw in public markets recently, leading to an increase in the bifurcation between private and public companies. Public companies seem to be rebounding lately, due to the stimulus provided by the government and central banks with private valuations lagging. This presents a significant opportunity to provide acquisition lines to public companies with strong management teams to purchase strategic assets at significant discounts.

## Portfolio Positioning and Pipeline

There are six individual borrowers in the portfolio which is spread across the materials, healthcare and information technology sectors throughout North America, with one small position in Australia resulting from a previous investment exit. See below for a breakdown of the portfolio by geography and asset class:



We have not had any payment defaults in the portfolio to date and all loans are in good standing. As the situation evolves, we have been in close contact with our borrowers to ensure their financial health and viability going forward.

Our deal pipeline is in excess of \$100mm with over \$40mm in transactions through our rigorous due diligence process and ready to fund. As a result of the market environment, new deals are being priced 400 to 600 bps above our historic deals, and if the market continues to rebound, we are positioned to capture the equity appreciation.

The AIP management team has decades of experience as lenders and operators in the small cap space. We have gone through the economic cycle and are confident that the strategy will continue to perform through the global pandemic. We see great opportunity to deploy additional capital as traditional lenders step away and anticipate substantially increased deal flow in the coming months.

Our credit underwriting remains disciplined as we look for companies with great economic prospects, temporarily hindered by this black swan event. This strategy has a long term focus, and should be part of a long term allocation to an investor's portfolio.

## **Fund and AIP Developments**

AIP recently finished a 2019 audit of financial statements and we are pleased to announce that we have received final signoff from KPMG.

As of March, the entire AIP team has transitioned to working remotely. We do not foresee any issues with working remotely and have provided the same level of professionalism to our borrowers and investors.

Thank you for your investment and continued support through this difficult time. Stay safe.

Jay Bala

CEO and Senior Portfolio Manager

## **AIP Convertible Private Debt Fund**

### **Sources**

- (1) Johns Hopkins University of Medicine
- (2) Conference Board of Canada
- (3) Canadian Centre for Policy Alternatives
- (4) TD Securities

The information contained herein is confidential information regarding AIP Asset Management Inc. and its affiliates (“AIP”). By accepting this information, the recipient agrees and undertakes that it will, and it will cause its directors, partners, officers, employees, attorney(s), agents and representatives to, not reproduce or distribute this presentation in whole or in part, and not disclose any of its contents, without the prior written consent of AIP.

The information contained herein is not, and under no circumstances is to be construed as, an invitation to make an investment in funds advised by AIP. The information contained herein is provided for informational purposes only and is not intended to be, nor should it be considered as, a complete description of either the securities or the issuers of the securities described herein. AIP advised funds are only offered pursuant to confidential private placement and offering memoranda and the information contained herein is qualified in its entirety by reference to such memoranda. Subscriptions for AIP funds will only be considered on the terms set out in the private placement and offering memoranda. The private placement and offering Memoranda contain important detailed information about AIP funds.

The information contained herein is presented solely for illustrative purposes and should not be construed as a forecast or projection. The statements contained in this presentation that are not historical facts are forward-looking statements, which are based on current expectations, estimates, and projections about the industry and particular markets. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions which are difficult to predict. Therefore, actual outcomes and returns may differ materially from what is expressed or forecasted in such forward-looking statements.

The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

The Risks associated with investing in a Fund depend on the securities and assets in which the Funds invests, based upon the Fund’s particular objectives. There is no assurance that any Fund will achieve its investment objective, and its net asset value, yield and investment return will fluctuate from time to time with market conditions. There is no guarantee that the full amount of your original investment in a Fund will be returned to you. The Funds are not insured by the Canada Deposit Insurance Corporation or any other government deposit insurer. Please read a Fund’s prospectus or offering memorandum before investing.