AIP CONVERTIBLE PRIVATE DEBT FUND

Q2 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. 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 June 30th, 2020 – Class A

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2020	0.76	0.55	0.97	0.96	1.49	0.27							**5.10**
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 +2.74% for the second quarter compared to +5.27% in the second quarter of 2019. The Net Asset Value of the Fund is $37.8 million as at June 30th, 2020.

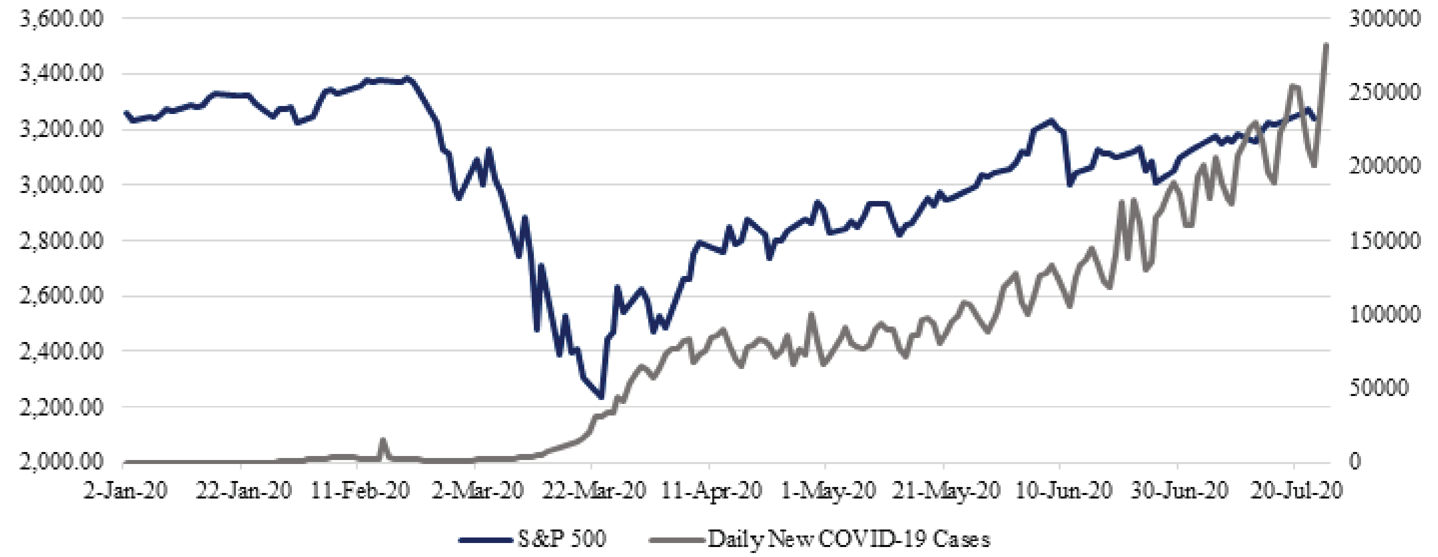
With much of the equity market facing uncertainty due to COVID-19, we did not see a lot of opportunity to convert our positions to equity and capitalize on trending markets. Instead, many of our positions maintained their defensive stance in the wake of COVID-19 and finished the quarter with some unrealized mark to market losses on the equity holdings. As the equity markets rebound through economic stimulus and progress towards a global vaccine, we anticipate the equity holdings to see a boost in volume and price appreciation through the second half of the year.

The mark to market on equity positions were more than offset by our credit team's ability to enforce security on our loans and renegotiate strike prices. Most of our positions went through review with our borrowers in the first half of 2020, where we were able to gather additional collateral, increase seniority of our liens, and lower strike prices on convertibles. Our quarter was further buoyed by a line extension to a borrower, generating additional origination fees for the Fund.

Outlook

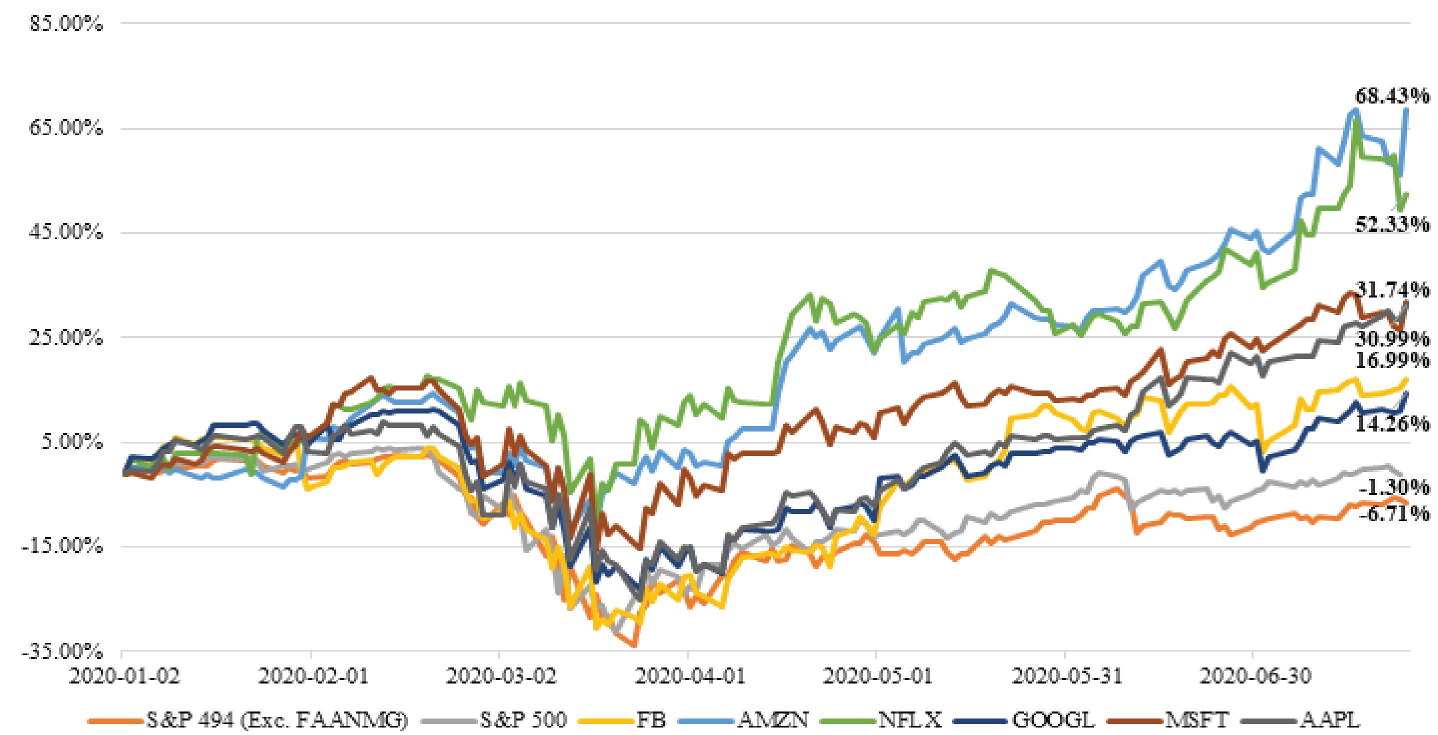
The equity market's reaction to COVID-19 was abrupt, dropping drastically in Q1 with the anticipation of prolonged economic contraction. Certain regions appear to have the pandemic under control, with a gradually declining growth rate of cases, others have ramped up through the second quarter. In the large cap, most liquid markets, prices change in accordance with news on reopening and vaccine developments as opposed to confirmed cases. The S&P 500 has rebounded to near all time highs, while confirmed cases spike worldwide.

Performance of the S&P 500 vs Daily New COVID-19 Cases



Source: Yahoo Finance and Our World in Data COVID-19 database

While the large cap markets react to implications to future growth, the small and micro-cap markets have continued to operate on fundamental value. Prices are more attractive than ever, and as the largest companies inflate prices, the smaller counterparts are allocated less and less capital. As at June 30th, 2020, the top 5 S&P 500 companies make up 23.38% of the entire index, this is the highest concentration of wealth in the market since the year 1970. The top 6 companies (Facebook, Microsoft, Apple, Google, Netflix and Amazon) have outperformed the rest of the index by 8.06%.



Source: Bloomberg, Yahoo Finance

With the top 1% of companies receiving over 23% of each index purchase, the rest of the market has a smaller piece of capital to work with and grow. The market that we operate in has historically been under funded, but in today's environment, opportunities are the best they have ever been. While the transactions that we invest in require extensive due diligence and underwriting, the coupon and participation in equity upside make this market an attractive point for new investment.

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.

Recent Activity

Our deal pipeline is in excess of $101mm with over $30mm in term sheet stage near funding. 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 Fund currently has about $6.5mm in cash ready to deploy, and we are actively looking to raise additional funds to meet demand. We can dictate terms with new borrowers and choose industries that we feel are most attractive in this environment. For example, we have a transaction in the pharmaceutical business based in Quebec looking to fund in the immediate future. This transaction would have an initial funding of $1.8mm and planned increases to a total facility size of $4.8mm in senior secured convertible notes. We are looking to secure an original issue discount of 15% to par and receive additional bonus warrants upon conversion to equity. With the security of a senior lien on assets in an attractive industry, we feel this transaction will be a great fit for the portfolio and our investors.

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.

Portfolio

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. 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.

Portfolio companies remained open through the COVID-19 shutdowns, with some pivoting their business model to participate in the surging demand for PPE. Early in Q2, one borrower announced a line of hand sanitizers which received $250,000 in pre-sales after the first 6 days. In June they have begun delivery of hand sanitizer to retail customers and are expanding that product line to take on institutional demand for disinfection supplies.

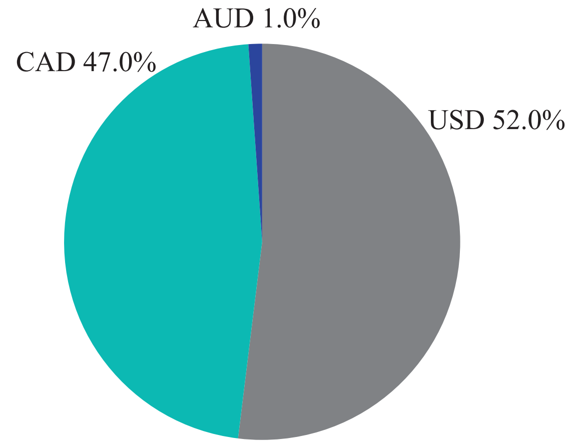
One borrower has been added to our watch list after a late filing in 2019 financial statements. We have been in discussion with management to review the delay and have agreed to a performance plan set out by our team. In this environment of depressed equity valuation in their industry, we encouraged the company to look into M&A transactions to bolster the business and expand their product line. The borrower has maintained their current status on all loans, and we expect resolution to their reporting process by the end of the next period.

Overview Exhibit A – Portfolio Overview as at June 30th, 2020

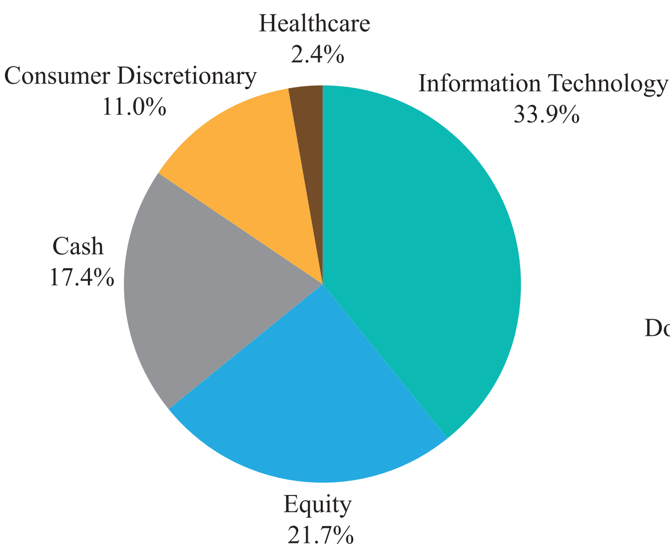
Key Statistics

Portfolio Summary	**30-Jun-2020**
Loan Amount Outstanding ($000)	$21,627
Cash Outstanding ($000)	$6,595
Net Working Capital ($000)	$1,438
Equity ($000)	$8,205
Other ($000)	$0
Portfolio Provision	$0
Weighted Average Loan Term (Months)	24.38
Weighted Average TTM (Months)	6.59
Weighted Average LTV	41%
Portfolio LTV	21%
Average Loan Outstanding ($000)	$3,605

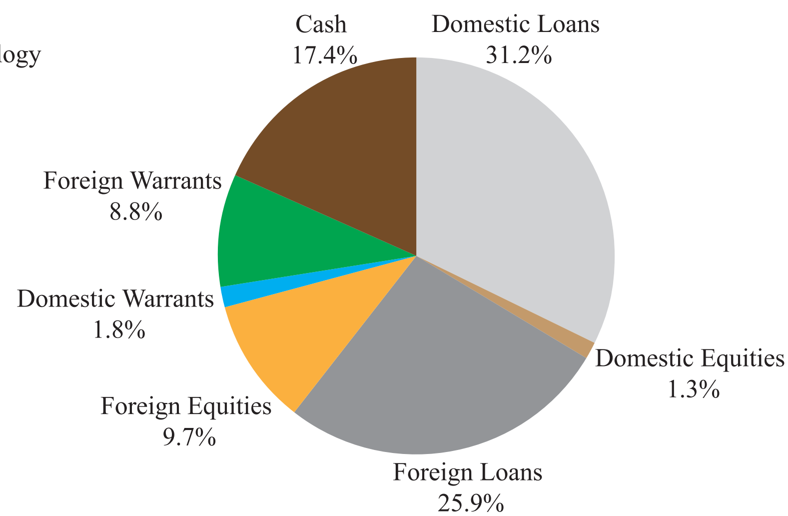
Currency Breakdown



Sector Breakdown



Asset Breakdown



Fund and AIP Developments

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 Asset Management