AIP CONVERTIBLE PRIVATE DEBT FUND

Q3 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. The Fund focuses on generating synergies and value for the borrower by assisting with growth planning, while the conversion feature allows for participation in equity appreciation.

The Fund's strategy works to capitalize on a lack of funding for publicly traded small and micro cap companies in North America. With investors flocking to a passive investing strategy, companies that do not fit in to an index tend to be overlooked and trade at a significant discount to the rest of the market.

Our experience in the space and a lack of competition allow us to negotiate extremely favorable terms with borrowers. We typically negotiate significant equity participation, while having perfected senior security over Borrower's assets.

Performance as at September 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	0.72	2.32	1.33				**9.76**
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 +4.43% for the third quarter compared to +1.78% in the third quarter of 2019. The Net Asset Value of the Fund is $49.3 million as at September 30th, 2020.

YTD the fund has returned 9.76%, with 90.3% of returns attributable to interest, fees, other income net of expenses. Given the black swan events in Q1/Q2 that disrupted much of the equity market, our focus has been on downside protection through the year. In our view, the senior secured private debt portion of the strategy has performed as expected – maintaining investor capital and providing the return floor that we expect through downward periods in the equity market.

Recent Activity

Through the year we have been focused on mitigating downside risk for our investors, both through new transactions and restructuring current holdings. Below are some examples of portfolio transactions that were restructured in Q3.

In September, the fund restructured equity in one of our Information Technology positions in to a convertible promissory note. This was done in order to secure the holding to assets, lock in gains in a volatile market, and maintain the upside capture in a company that we believe in. This action had a significant impact in reducing equity exposure for the fund and reduce our exposure to market volatility.

The Fund has also committed to a line extension to an existing borrower in the Healthcare sectors, for an additional CAD 4 million, subject to exchange approval. This facility will be used to support the company's growth through M&A, with targets already identified and in various stages of due diligence.

The most recent addition to the portfolio is a CAD $3 million credit facility to a Canadian based Natural Health Products company that is focused in the pain management space. The company is in the process of listing on the TSX-V and the loan has been guaranteed by the parent co, which is publicly traded with a market cap of CAD $60 million plus. Our initial advance was CAD $2 million with a conversion feature which allowed the Fund to acquire units at a 20% discount to market price, where units consist of 1 common share and 1 warrant. We feel that this transaction has the potential to drive strong returns for the remainder of the year while mitigating downside risk through the facility's security package and coupon.

With the recent increase in investor interest and investment in our Fund, we are successful in deploying that capital effectively. We continue to see excellent opportunities in the market and will continue to raise capital to meet borrower demand.

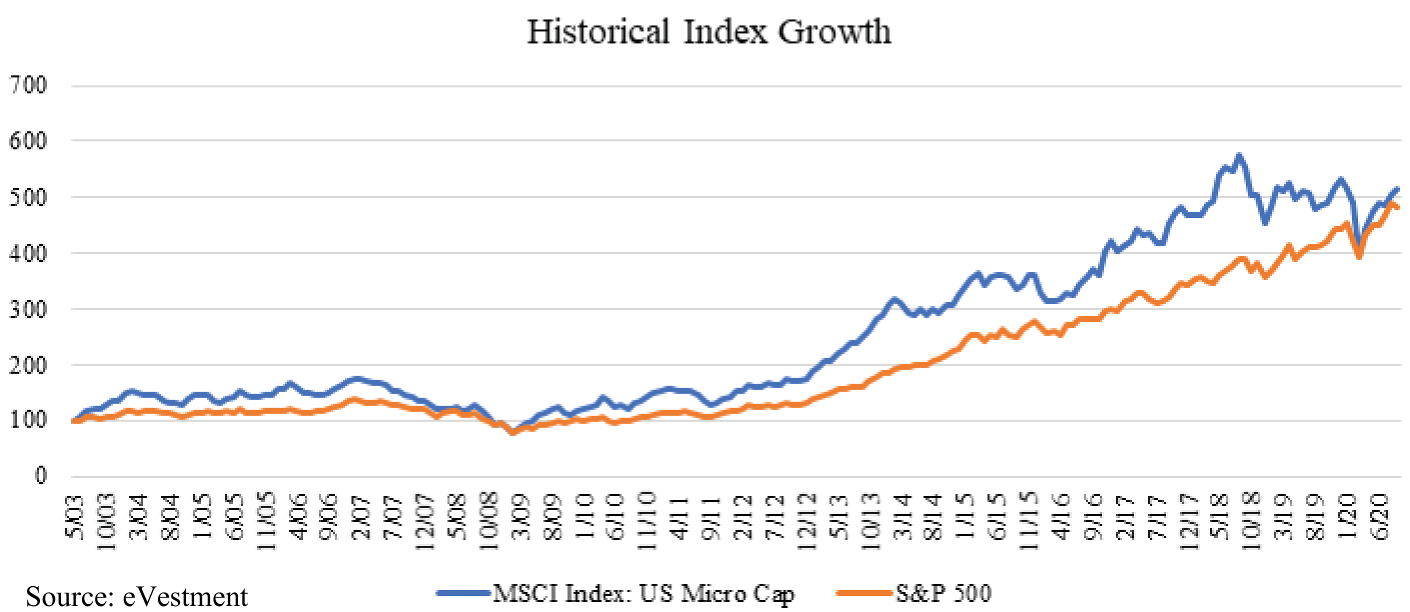
Portfolio

There are seven individual borrowers in the portfolio which is spread across the materials, healthcare and information technology sectors throughout North America, with one small equity 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. We continue to actively monitor our portfolios as effects of the pandemic are felt globally.

Portfolio companies remained open through the COVID-19 shutdowns, with some pivoting their business model to participate in the surging demand for PPE. As we mentioned in our previous commentary, one borrower has launched a wholly owned subsidiary catering to the growing need for PPE in Canada. In September, that subsidiary announced an initial USD $20 million contract to supply PPE to the Canadian healthcare market with initial delivery imminent.

Outlook

With the resurgence of equity prices to near all time highs, the Fund is well positioned to capitalize on equity upside through Q4. During the initial crisis, our team was able to renegotiate strike prices on certain convertible loans which have yet to realize their upside. Microcap equities have lagged the S&P500 in terms of the rebound, only just reaching December highs while the large cap counterparts have eclipsed those numbers.



As shown above, micro-cap stocks have historically taken large initial drawdowns, then outpaced large cap equity over the following few years. We believe that the current fiscal stimulus packages around the World will aid this inflection in the coming months. Continued government stimulus appears to be imminent, leaving great upside for the micro-cap market in the very near term.

Our deal pipeline is in excess of $127 million with over $25 million in executed term sheets for transactions in the near term. The Fund currently has about $7.8 million in cash ready to deploy, and we are actively looking to raise additional funds to meet demand. Given current market conditions, we have the leverage to dictate terms with new borrowers and choose industries that we feel are most attractive in this environment.

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.

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.

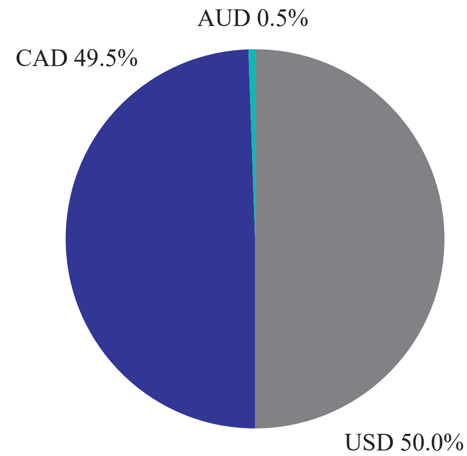
Our credit underwriting remains disciplined as we look for companies with great economic prospects, temporarily hindered by this black swan event. This strategy has a long-term focus, and should be part of a long-term allocation to an investor's portfolio.

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

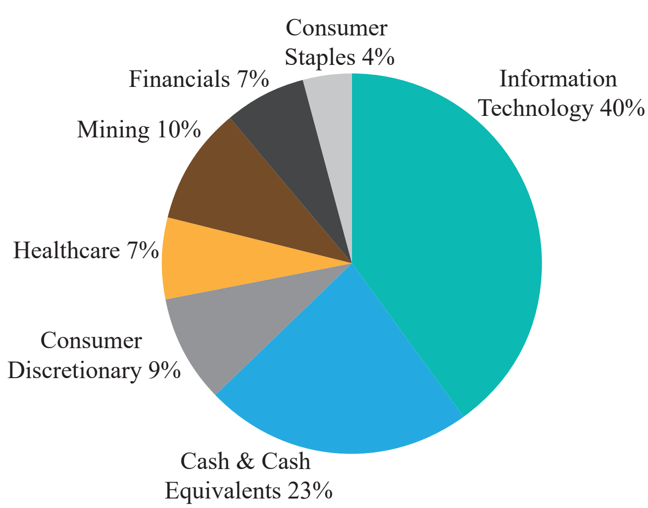
Key Statistics

Portfolio Summary	30-Sep-2020
Loan Amount Outstanding ($000)	$37,020
Cash Outstanding ($000)	$7,883
Net Working Capital ($000)	$3,289
Equity ($000)	$1,096
Other ($000)	$0
Portfolio Provision	$0
Weighted Average Loan Term (Months)	24.56
Weighted Average TTM (Months)	8.85
Weighted Average LTV	65%
Portfolio LTV	30%
Average Loan Outstanding ($000)	$4,627

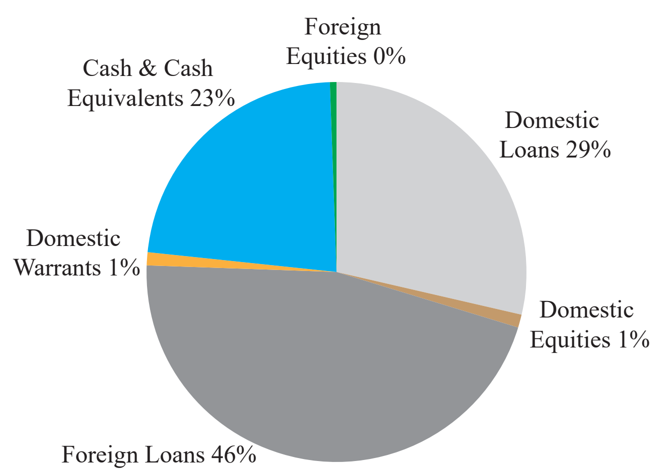
Currency Breakdown*



Sector Breakdown



Asset Breakdown



*Excludes working capital

Fund and AIP Developments

The Fund is currently in the process of engaging a third-party valuation firm to provide independent analysis on the loan portfolio. This will be on top of AIP's internal monthly monitoring of the portfolio positions and Ninepoint's oversight of our management. 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.

AIP was recently recognized at the 2020 Canadian hedge Fund Awards, where the Fund took home five awards including three 1st place winners. The AIP Convertible Private Debt Fund LP was recognized as having the Best 3 Year Return, Best 5 Year Return, and Best Sharpe Ratio among all funds in the Global Macro/Managed Futures/Multi-Strategy Category. We also placed second overall in the 1 Year Return and 5 Year Sharpe Ratio award categories.*

Thank you for your investment and continued support through this difficult time, we are looking forward to continued success in the coming months. Stay safe.

Jay Bala
CEO and Senior Portfolio Manager
AIP Asset Management

Source

* https://www.newsfilecorp.com/release/66514