AIP CONVERTIBLE PRIVATE DEBT FUND

Q2 2021 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 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 is 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 into an index tend to be overlooked and trade at a significant discount to the rest of the market.

The AIP Convertible Private Debt Trust, which is eligible for Registered Accounts in Canada, was launched in April 2021 and has had success attracting capital in Q2-2021.

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

Performance as at June 30th, 2021 – Class A (%)

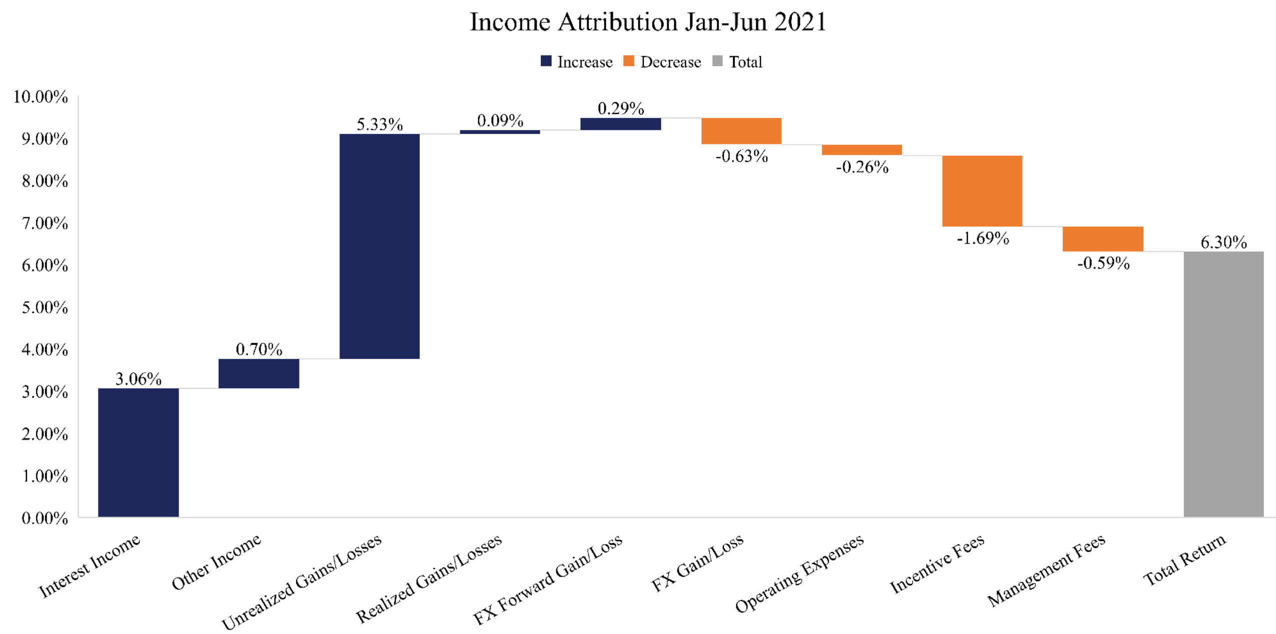
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2021	0.52	3.05	1.03	0.10	1.83	-0.35							**6.30**
2020	0.76	0.55	0.97	0.96	1.49	0.27	0.72	2.32	1.33	1.10	0.53	2.05	**13.85**
2019	1.07	0.92	1.96	1.15	3.30	0.63	0.62	1.10	0.05	1.96	1.07	2.89	**18.15**
2018	5.41	-0.46	0.52	1.49	4.28	7.19	4.57	10.70	-0.34	-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**

Source: AIP Management

The Fund returned +1.57% to Class A investors for the second quarter compared to +2.74% in the second quarter of 2020. Return in the second quarter slowed significantly compared with the first in 2021. The Fund participates in equity upside for many of our borrowers, a corollary of which is participating in equity downside when there are open positions. As long term investors and partners to our borrowers, we focus on generating lasting value and realizing our gain on exit, which can result in some volatility in the Fund's return. The Net Asset Value of the Fund is $95.4 million as of June 30th, 2021.

Based on our internal income attribution, the majority of our return is attributable to the equity upside we were able to generate through our activist positions. Interest and other income provided a stable return as we expected, and FX was nearly a non-factor due to our USD hedging program.

As seen in the graph below, a significant portion of the equity upside is in an unrealized position in the portfolio, which may contribute to future volatility. As always, we enter into 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.



Source: AIP Management

Given the black swan events in 1H 2020 that disrupted much of the equity market, our focus was on downside protection for much of the year. As the global economy makes strides toward recovery, we expect the portfolio to fall back in line with our previous year's return profile, i.e., equity upside generating a significant portion of our returns.

Recent Activity

Our portfolio continues to show signs of strength and additional capital needs are anticipated. Several current borrowers have indicated interest in expanding their lines with AIP, happy with the way that we have managed the transactions this far.

Issuer 9 has had significant interest from outside investors, including a joint venture between two multibillion dollar companies and a regional utility interested in taking an equity position in the company. These discussions come alongside the businesses goal of raising an additional USD 10mm in equity for their expanding operations. To facilitate marketing and provide additional capacity for growth, AIP has advanced an additional USD 0.5mm to the company with the potential to add USD 2mm subject to certain milestones being achieved. This position remains fully collateralized against the companies' prime assets and secured with a Corporate Guarantee, General Security Agreement, share lock ups and proxy votes from controlling shareholders. AIP has been working closely with management to drive the narrative for this business and we are excited about the potential upside this position offers to the portfolio.

Issuer 13 recently completed a vote to close its debt for securities transaction with AIP, wherein CAD $3.6mm of maturing debt to AIP was converted to shares and warrants totalling a 26.6% ownership of the company on an undiluted basis. AIP along with another lender control a significant portion of the business and are looking to maximize shareholder value through an acquisition. The borrower's business of holding a global portfolio of private investments has led to an attractive portfolio of Cannabis related businesses around the world. One such portfolio company recently raised over AUD $27mm making Issuer (ELXR)'s investment in that business, which is pledged as AIP collateral, worth over CAD $25mm as of June 30th.

The bulk of The Fund's $47.7mm of cash on hand is expected to be deployed in Q3. One large opportunity is with Issuer 11. An LOI has been executed for this company to acquire a private company which would increase the issuer's revenue and unlock significant upside for AIP investors. We expect that this borrower will require additional capital in the near future to fund this transaction.

Portfolio

As of June 30th, there are six individual borrowers in the portfolio which are spread across financials, healthcare, consumer discretionary, and information technology sectors throughout North America. All interest from all borrowers in the portfolio have been received to date and all loans are in currently good standing. We continue to actively monitor our portfolios as effects of the pandemic are felt globally.

During Q2, Issuer 7 had a number of purchase orders delayed which led them to request a further extension on their notes maturing in May 2021. After discussion with the borrower's management team, AIP determined that the best course of action in this case was not to extend the note further, and instead convert a significant amount of the principal to equity. Prior to conversion, total principal outstanding was CAD $1.1mm, after conversion, AIP holds $1.1mmin shares and $0.256mm in senior secured notes which were extended to August 2021. We expect the borrower to repay the remaining principal in cash at maturity and to exit the residual equity position slowly over the second half of the year.

Issuer 11 has continued to make strides toward an acquisition of value, consolidating their shares outstanding through a 9:1 stock split and filing a plan to buy back up to 5% of outstanding shares. By reducing the float, the borrower is able to limit volatility in equity and use shares as a more reliable source of capital in an acquisition. The borrower continues to build its brand, recently having hired a marketing agency to help expand the visibility of the company.

Issuer 15 recently raised an additional CAD $10mm in equity in an oversubscribed bought deal run by Echelon Wealth Partners Inc. Proceeds from this raise were deposited in a blocked account which AIP has control over, further solidifying AIP's priority position over collateral.

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 feel that there is an opportunity to capture upside potential should the USD make a significant positive move. This option strategy allows us to maintain our downside protection while participating in the upside.

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

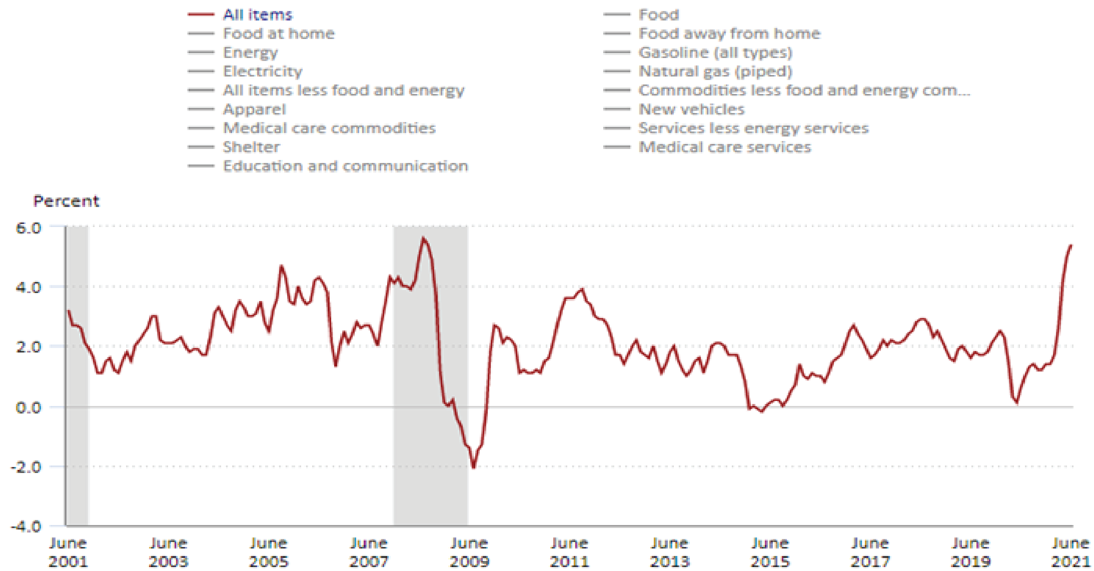
With the recent increase in investor interest and investment in the Fund, we are working to transition pipeline deals into portfolio positions. Often, it can take several weeks to months to transition a transaction from initial discussions through a term sheet and legal documentation. This process is sometimes subject to delays during negotiation, with closing timeline becoming more certain as it becomes nearer. Our efforts to build the pipeline have led to a significant funnel of deals, however with the cash position at the end of June sitting at CAD 47.7 million, we have enough cash to fund transactions expected to close in the immediate future. We have decided to temporarily limit subscriptions to the fund while we execute on transactions and further season our pipeline. This is in the best interest of current and future investors, by allowing our team to focus our efforts on deploying investor capital. Going forward, we will evaluate our cash need month to month and expect to start taking subscriptions again as our cash balances normalize.

Outlook

We continue to see a frothy equity market, given the amount of liquidity being injected by Central Banks in Canada and the US. As some might have expected, the excess cash in the economy has driven a rise in real asset prices reflected in above average inflation[i]. This spike in inflation and the precarious economy coming out of COVID-19 pair to form a tense environment for risk-on assets. Our strategy to navigate this environment is to maintain higher levels of cash in the fund and react quickly to the changing environment we are in. We feel that being able to execute with speed and accuracy is one of the best ways to generate attractive returns for our investors at this time.

[1] U.S. Bureau of Labor Statistics: https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

Despite what could be a global fourth wave of illness due to new variants, we expect the direct economic impact of COVID-19 to be significantly limited as compared with the previous year. With the direct uncertainty of COVID-19 becoming less of a factor, we look forward to operating in an environment governed by macro economic forces, rather than external shocks of 2020.

The markets remain bifurcated as ETFs and index funds continue to prefer large cap names over small and micro cap stocks. This gap in liquidity and capital was the thesis behind our strategy and has proven to be accurate time and time again. In H2 we intend to focus on growth industries and businesses that will benefit from growth in the real economy.

Our deal pipeline is more than $400 million with over $70 million in term sheets under negotiation for near term transactions. The bulk of our pipeline growth has come from the Consumer Staples, Financial Services, Cannabis and Technology sectors. In Q3/Q4 we expect to see more deal flow coming from the real economy as businesses can operate at increasing capacity.

Our recent increase in origination efforts have led to a larger funnel of deals, however our cash position remains high and we expect to deploy throughout Q3 and Q4. As deals materialize and we fund transactions, we will evaluate our cash needs month to month.

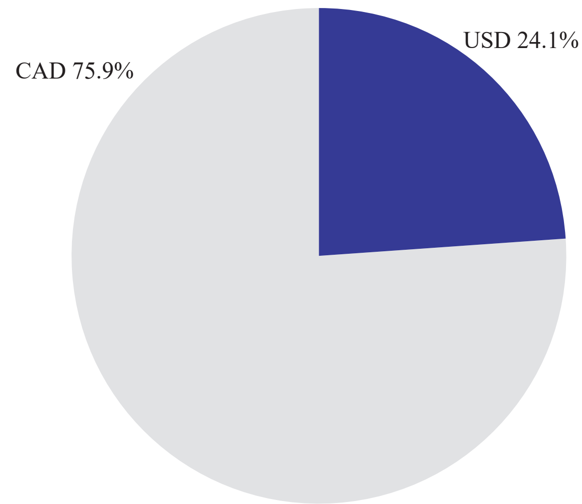
We expect equity markets to generate significant returns in 2021, giving the Fund an opportunity to allocate and convert aggressively to realize upside gains for our investors. The transactions that we invest in require extensive due diligence and underwriting, the coupon and participation in equity upside make this market an attractive point for new investment.

Overview Exhibit A – Portfolio Overview as at June 30th, 2021

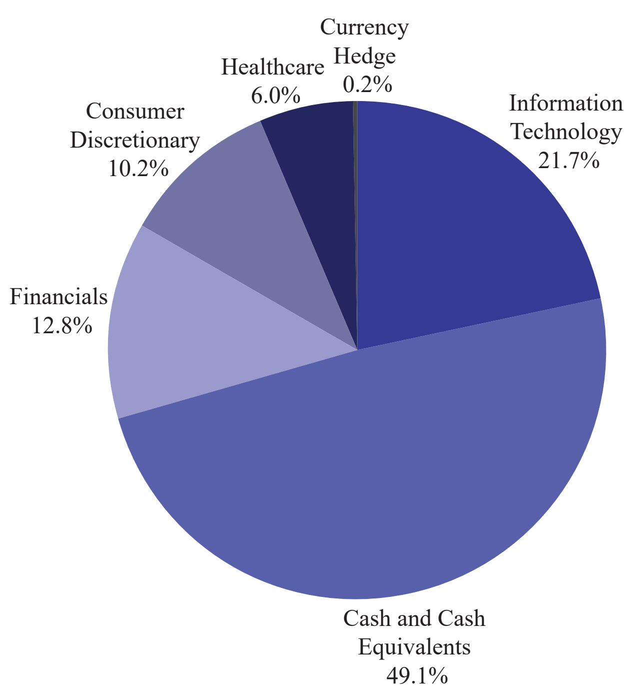
Key Statistics

Portfolio Summary	Jun-30-2021
Loan Amount Outstanding ($000)	$35,725
Cash Outstanding ($000)	$47,765
Net Working Capital ($000)	($943)
Equity ($000)	$12,633
Other ($000)	$189
Portfolio Provision	$0
Weighted Average Loan Term (Months)	26.8
Weighted Average TTM (Months)	9.72
Weighted Average LTV	66%
Portfolio LTV	39%
Average Loan Outstanding ($000)	$2,977

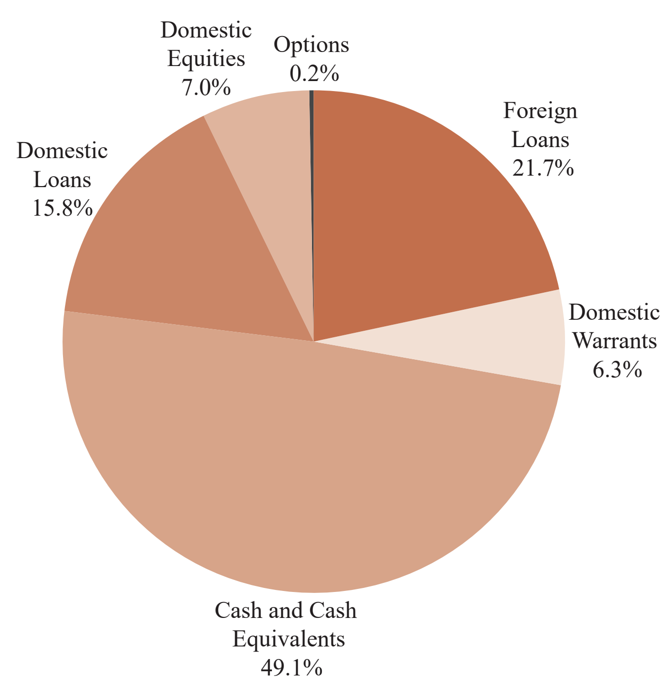
Currency Breakdown



Sector Breakdown



Asset Breakdown



Fund and AIP Developments

As part of our quarterly valuation process, we have reviewed the independent valuators report for Q2 2021 and have no material changes to the value of the loan portfolio. 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 recently added new resources to the originations and investment teams as part of our push to expand the pipeline and add accretive positions to the portfolio. Our new Senior Vice President of Originations will further enhance our network of potential borrowers and strategic partners for our current borrowers. We have also hired a Vice President on the investment team, focusing on M&A who will help us develop relationships and structure unique transactions that benefit both the fund and our borrowers. With these two new team members, we are excited about the opportunity set in front of us, and our expanded capacity to deliver strong results for our investors.

Thank you for your investment and continued support through an uncertain time. Stay safe.

Jay Bala
CEO and Senior Portfolio Manager
AIP Asset Management
Manager to the AIP Convertible Private Debt Fund LP