

Invico Diversified Income Fund

Letter to Unitholders

March 7, 2023

Classes F, A, FU



INVICO 

Table of Contents

Message from the Portfolio Managers	3
2022 Invico Diversified Income Fund Recap	3
Total Returns & Additional Distributions.....	3
Aspen Air U.S., LLC Sale.....	4
2023 Outlook.....	5

Message from the Portfolio Managers

It goes without saying that 2022 was a challenging year for advisors and investors as numerous macroeconomic factors wreaked havoc in the public markets. As a leading alternative investment fund manager, we believe last year, perhaps moreso than any other, underscored the importance of alternative investments and their role in offsetting various pressures and supplementing a well-rounded portfolio. Our signature fund, Invico Diversified Income Fund (“IDIF” or “the Fund”), achieved a record year of performance, and we are pleased to share this 2022 update with you.

2022 Invico Diversified Income Fund Recap

Total Returns & Additional Distributions

While the annual audit is underway, we expect final results for 2022 to be among the best annual total returns since inception. The Fund generated annual total returns (unaudited) of 17.2% for its Class F unit, 16.1% for its Class A unit, and 10.9% for its Class FU unit, as at December 31, 2022. In addition to this robust performance, we are pleased to declare a non-recurring additional distribution to unitholders of record as at December 31, 2022, to be paid on April 7, 2023.

This announcement marks the fourth additional distribution issued by IDIF in 2022 and reflects the Fund’s strong performance through the fourth quarter, led in part by substantial deployment in private debt opportunities. IDIF completed seven advances totaling approximately \$35.9 million under new and existing financing commitments in support of our borrowers’ active growth initiatives. Additionally, with high commodity prices and economic constraints continuing to drive inflationary pressures in all sectors and volatility in public markets, IDIF’s diversified composition and energy production exposure has produced incremental returns above targeted rates.

The following table outlines the specific details of the Q4 2022 additional distribution for each IIROC Trust unit:

	Class F	Class A	Class FU
Additional Distribution	\$0.0750/unit	\$0.0700/unit	USD\$0.0500/unit

In the aggregate, this announcement represents over \$2.6 million in additional distributions for IDIF unitholders in the fourth quarter and over \$8.4 million in total



distributions beyond the target rate for the year. The following table summarizes the details of all additional distributions announced in 2022 for each IIROC Trust unit.

	Class F	Class A	Class FU
Q1 2022 Additional Distribution	\$0.0500/unit	\$0.0435/unit	US\$0.0513/unit
Q2 2022 Additional Distribution	\$0.0700/unit	\$0.0608/unit	US\$0.0719/unit
Q3 2022 Additional Distribution	\$0.0600/unit	\$0.0600/unit	n/a
Q4 2022 Additional Distribution	\$0.0750/unit	\$0.0700/unit	US\$0.0500/unit
Total 2022 Additional Distribution	\$0.2550/unit	\$0.2343/unit	US\$0.1732/unit
Total 2022 Distribution (Base Rate + Additional Distribution)	\$1.0566/unit	\$0.9519/unit	US\$1.0204/unit
2022 Effective Yield Percentage	11.4%	10.2%	10.7%

Aspen Air U.S., LLC Sale

We are also pleased to share that on December 23, 2022, IDIF successfully exited from its investment in Aspen Air U.S., LLC (“Aspen”). The Aspen facility was acquired by Iwatani Corporation of America, a wholly owned subsidiary of Iwatani Corporation, a publicly listed company with a market capitalization of more than US\$2 billion. The sale returned approximately CAD\$51.6 million to the Fund and enabled IDIF to repay all intercompany debt held on the asset and capture the equity value recorded in the Q3 NAV (noted as a component of the “equity yield” portfolio in IDIF’s disclosure documents). Based on IDIF’s holding period of Aspen from December 2018 to the sale date in December 2022, the Fund earned a multiple of total value paid in (TVPI) of 3.2x. The recapture of Aspen’s equity to the Fund will improve yields in 2023, as it is redeployed into new lending arrangements.



2023 Outlook

Looking ahead at 2023, the hurdle rate for each IIROC Trust unit, as per the IDIF Offering Memorandum, will increase a full 1% due to the rise in interest rates throughout 2022. Additionally, given the continued strong cash generation at levels comfortably above the Fund's 2022 hurdle rates, Invico has determined it is appropriate to raise the base distribution a commensurate 0.5% on all IIROC Trust units. Both the change to the hurdle rate and base distribution are effective as at January 1, 2023, and the January 2023 distribution will be the first monthly distribution at the new rate, which was paid on February 28, 2023.

	Class F	Class A	Class FU
2023 Target Distribution Rate	\$0.0768/unit per month, 9% per annum	\$0.0674/unit per month, 8% per annum	USD\$0.0750/unit per month, 9% per annum
2023 Hurdle Rate	9%	8%	9%

On the loan side of the portfolio, we have begun to see – and expect to continue seeing – many high-quality, diversified opportunities with solid credit histories emerge as the market for private debt expands to fill the needs left unattended by traditional banks. The transaction proceeds from the Aspen sale and ongoing capital raising efforts are expected to be fully redeployed by the end of Q1 2023 into lending opportunities, many of which are currently under contract. Additionally, we continue to maintain an active pipeline to keep cash deployed and anticipate approximately \$70 million of advances on existing loan facilities within the next several quarters and currently have over \$70 million of new transactions in advanced stages of evaluation or due diligence and over \$50 million of prospective opportunities in the early stages of evaluation.

On the energy side of the portfolio, as expected we experienced some pullback in commodities over the second half of 2022, the returns to the fund remain robust and the hedging program put in place in the first half of 2022 is adding to returns in 2023. New opportunities for growth are being pursued in our core focus areas across Canada and the United States. With demand continuing to build as the world fully emerges from the COVID-19 pandemic (including China), a flat rig count in the U.S. and supply chain issues limiting supply growth, we believe energy commodities will remain constructive to 2023 returns.



We look forward to building on the momentum gained in 2022 and to having another successful year. Thank you for your continued support and best wishes for a prosperous year.

- Allison Taylor, Jason Brooks, Chris Wutzke



Information

Address:	209 8 th Avenue SW, Suite 600, Calgary, AB T2P 1B8
Main Line:	(403) 538-4771
Auditors:	PricewaterhouseCoopers LLP
Legal:	Norton Rose Fulbright Canada LLP
Portfolio Managers:	Jason Brooks, CFA Allison Taylor, MBA Chris Wutzke, CPA, CA, CFA

Please contact your advisor if you have any questions or comments.