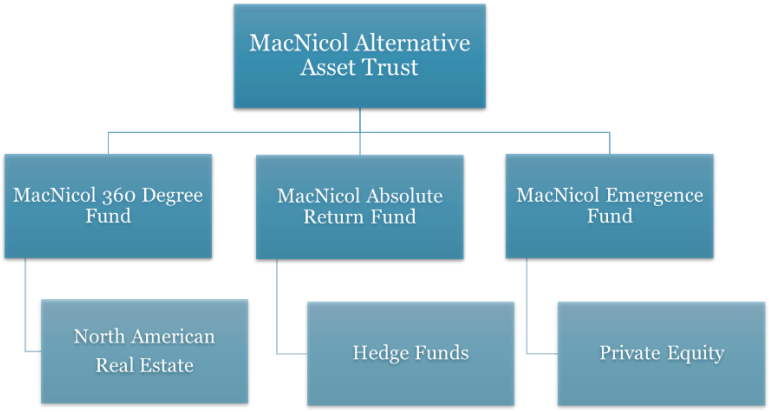
Alternative Asset Trust First Quarter Report: March 31st, 2019

The MacNicol Alternative Asset Trust is a multi-strategy, alternative investment platform designed to generate positive and uncorrelated returns against the public stock and bond markets. The Trust, through its underlying limited partnerships, is invested in private real estate and mortgages, private equity and multi-strategy hedge funds. Combined, the Alternative Trust is invested in more than 150 separate real estate projects, mortgages, hedge funds and private securities. The advantage of combining different alternative asset classes and high yield investments into one Fund include tremendous diversification, enhanced liquidity, and a more predictable and less volatile pattern of returns when compared against the performance of the individual asset classes themselves.

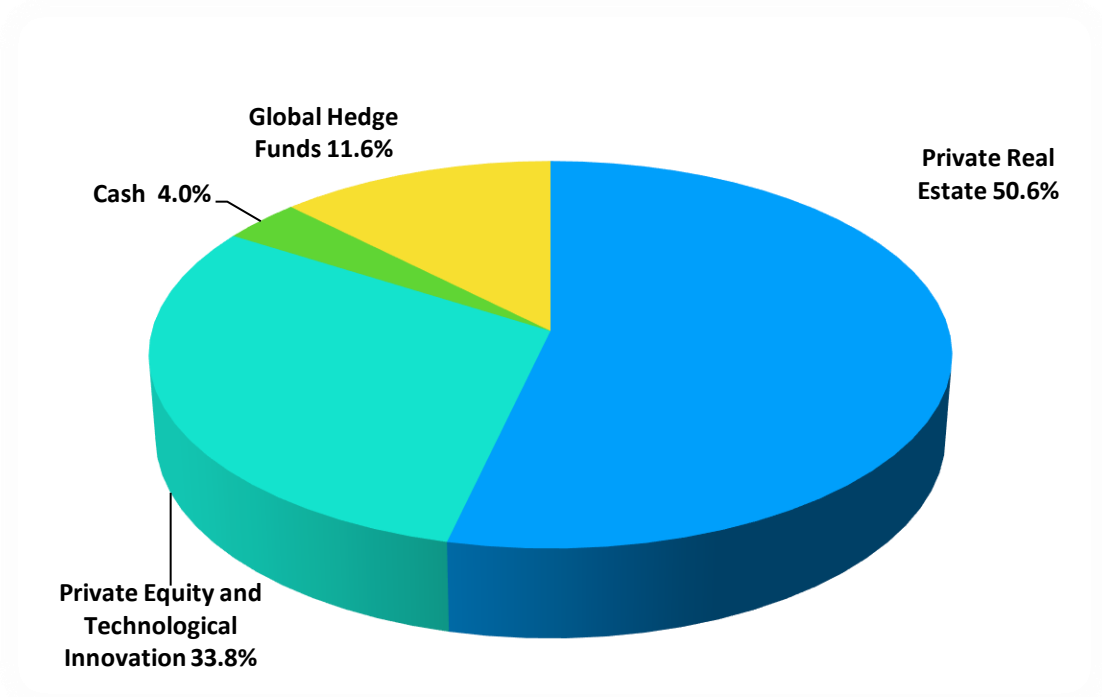
Chart 1 – Investment Structure MacNicol Alternative Trust



Alternative Trust Review: The goals of the Alternative Asset Trust are to generate positive "real" returns (after-taxes and inflation) each year, and to generate annualized nominal returns of 6% to 8% over rolling five-year periods. We are pleased to report that as at March 31st, 2019 the Trust has met its primary goal by generating a 5-year return of 7.9%. Whereas the 4th quarter of 2018 was defined by periods of extreme volatility, particularly in December, the first quarter of 2019 marked a period of recovery for global equity markets. Lower bond yields, a more cautious pace of monetary policy normalization and the conclusion of the Chinese New Year period were the dominant macro-economic drivers that investors and market participants had to analyze and synthesize as allocations to the various asset classes were made. Although the Trust trailed developed equity markets early in 2019 it provided a cushion to investors during the fourth quarter of 2018 when it was higher by over 3% at a time when developed equities were lower by 10-20%.

We are pleased the Trust was able to provide investors with enhanced portfolio diversification when they needed it most and continue to position the Trust with a focus on quality and diversity. While the first quarter of 2019 was weaker for the Trust, we expect it to come back into focus during the mid-point of 2019 when falling yields stabilize and momentum fueled movements in equity markets run out of steam. Chart 2 below describes the Trust's overall asset mix at the end of the 1st quarter. During the 1st quarter the Trust's overall asset mix was little changed as the we were engaged in due diligence into new investment opportunities. However, a selection of relevant transactions is discussed later in this report.

Chart 2 – MacNicol Alternative Asset Trust Asset Mix March 31st, 2019



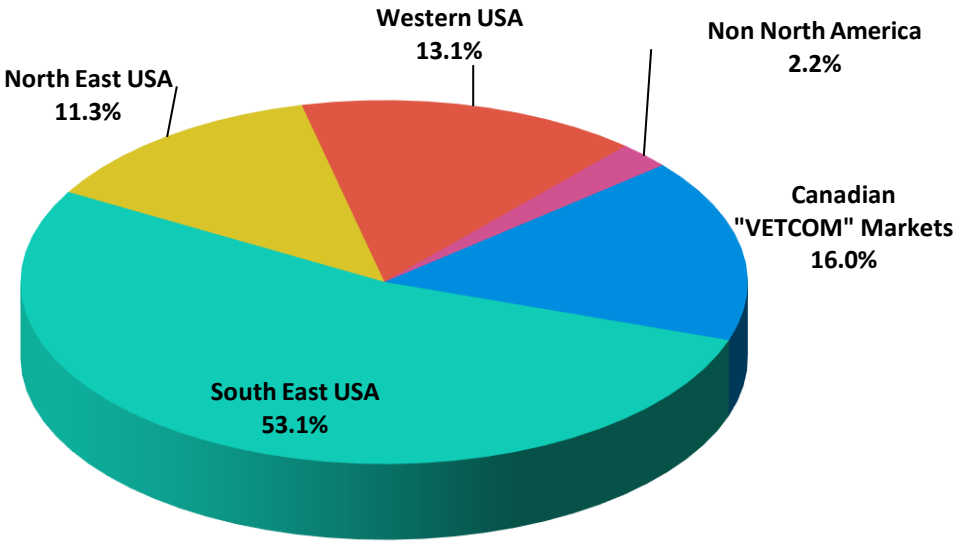
Alternative Asset Trust First Quarter 2019 Highlights

During the first quarter of 2019 the Trust declined slightly, giving back roughly 1% once fees and expenses were factored into our calculations. Most alternative asset classes were softer in January and February as investment funds "chased" established equity markets that were rebounding from the late December 2018 routing.

North American Private Equity Real Estate: 360 Degree Realty Income Fund

The Alternative Asset Trust invests in North American real estate through the MacNicol 360 Degree Realty Income Fund. This fund focuses on value-added projects in the United States and Canada. The Fund also invests in financing through the residential and commercial mortgage funds of carefully selected sponsor firms. All sponsors are chosen for their high degree of local experience in deal sourcing, finance, construction, and property management. Chart 3 highlights the regions of North America in which our real estate partnerships and projects are located as at March 31st, 2019.

Chart 3 – MacNicol 360 Degree Realty Income Fund Geography March 31st, 2019



*VETCOM (Vancouver, Edmonton, Toronto, Calgary, Ottawa and Montreal)

360 Fund Fourth Quarter Highlights: During the first quarter of 2019, the fund was essentially flat in base currency terms and off less than 1% in local currency terms. The quarter was dominated by a ramp up of tenancy at our North Miami Beach LLC BP Group. BP Group, known as *The Harbour* is a large twin tower condominium project led by Key International Group and 13th Floor investments.

During the first quarter of 2019 an additional 45 units at *The Harbour* closed bringing the total occupancy to 72% of the available 425 units. As this report goes to print it forecast that based on contracting activity, actual occupancy at the development is closer to 93% with purchase agreements in place or currently underway for a total of 97% of the asset. Distributions from The Harbour now represent 1.3x invested capital and as the remaining units move from the contracting to closed stage, additional distributions will be forthcoming, likely bringing the overall project return on invested capital to 2.0x.



[The Harbour is located at 16385 Biscayne Blvd. North Miami Beach, FL]

Commercial Real Estate: RFR Holdings' recent bid for the landmark Chrysler Tower came in over the asking price, but not enough to offset the $800 million paid for the building in 2008 by joint venture partners Tishman Speyer and the Abu Dhabi investment authority. The notion that commercial real estate is a "slam dunk" investment in the real estate space is proving to be a more challenging one to back up in recent quarters. At issue is the fact that in several cases, rents have grown, but not as fast as leases paid to the owners of the land. Sure, commercial real estate is still an extremely important (and profitable) real estate product type for this fund and in general. But the days of "tossing" money at a project are now well in the rearview mirror. Recent realizations in the fund have occurred primarily in Fullerton, California and relate to flexible logistic terminals and commercial office space. Where as earlier in the cycle an assets location was easily the single most important factor in a commercial real estate transaction, today's market strikes a better balance between locational premiums and asset specific flexibility. Easily adaptable and configurable commercial real estate should command a higher level of demand from tenants than a fancy address alone. Back to the Chrysler Tower, we certainly love its art deco inspired look and fancy Turtle Bay neighborhood in midtown Manhattan. However, we simply could not envision relocating our own offices to the Chrysler Tower: paying a King's ransom for a fancy view of Lexington Avenue isn't our thing.

Multi-family Residential: Make no mistake, multifamily residential real estate remains robust and the first quarter of 2019 was no exception. The key reason for the product type's ongoing success is quite simply that the strong demand underpinning the sector's success shows no sign of letting up. Since 2011, nearly 9 million households have formed in the United States, a mean of 1.1 million annually. Growth in the number of prime renter-age individuals is expected to continue, with the number of young adults reaching their 20's forecast to increase through to at least 2025. In addition, job growth remains robust, and societal metrics such as: 1. Student Debt which limit the opportunity set for first-time homebuyers 2. Families remaining renters longer due to career repositioning and 3. Retirees downsizing and moving into more services-oriented rentals are all likely to maintain demand for multifamily housing for quite some time. Additionally, rising mortgage interest rates have significantly widened the affordability gap between renting and owning.

As clients know, interest rate hikes (though temporarily in the penalty box) remain biased upwards. The 30-day LIBOR (London Interbank Offered Rate) for example moved from 1.56% at the start of 2018 to over 2.50% by year's end. Accordingly, the MAAM investment team is carefully reviewing the debt side of private equity structured real estate opportunities in addition to the risk of the underlying strategies themselves (i.e. core, value-add and development). We cannot envision engaging in a partnership for the fund in which more than 60% of the debt is floating rate debt regardless of management's optimism as to their ability to sell or refinance properties. Fortunately, the world of interest rates cuts both ways as higher rates make home ownership increasingly unaffordable making rentals much more appealing. During the quarter the sale of Arium Emerald Isle for 2.8x MOIC was the main notable exit in the fund and the transaction's nearly 50% gross, fund-level IRR underscores why we began this section of the report with the phrase "Make no mistake".



[Arium Emerald Isle is like so many successful multifamily assets: lovely building, great location & thoughtful amenities]

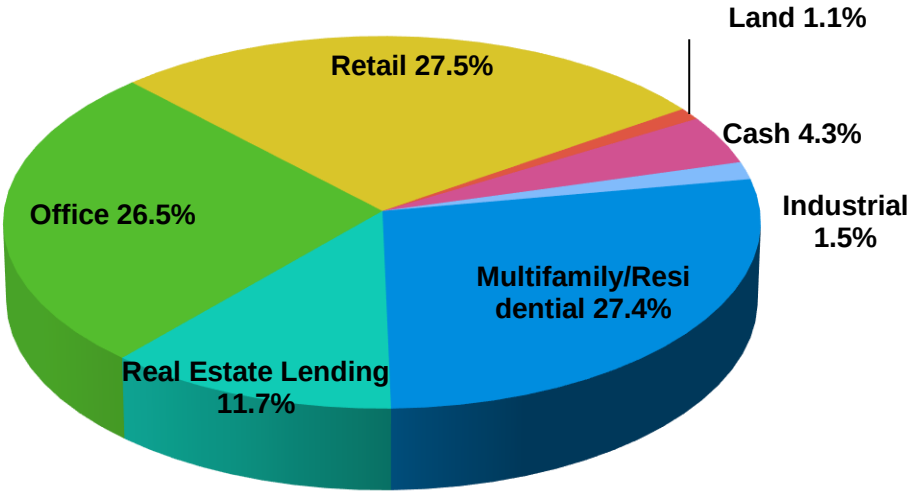
Industrial: The industrial product type was stable during the quarter with less in the way of "front page news" type transactions catching our attention. Prominent US and Global

institutional investors were less active in the space, but that certainly did not preclude activity from occurring at a more local level. We continue to be on the look out for assets in significant distribution corridors or proximate to Tier 1 gateway cities. Realizations on recent industrial assets checked in at more moderate but nonetheless respectable 1.3-1.8x multiples with the higher end defined by assets that can quickly be flipped into near-term inventory management solutions.

[Warehouses like this one on Walnut Avenue in California are poised for joint venture equity commitments that quickly re-appear as Class A storage facilities]

Office: As shown in Chart 4 below, office remains one of the larger focus areas of the fund. An unexpected dip in new square footage in 2018 helped nudge vacancy rates lower across the United States. This has led to a slight tightening in market conditions and moderate rate increases in several MSAs (Metropolitan Statistical Areas). Collaborative floor plans and other strategies that make more efficient use of space are moderating the pace of lease growth to a level more consistent with broader economic growth. Net absorption [total amount of space that tenants moved into less total amount of space tenants moved out of] of office space was strong in 2018 at 77 million square feet (Source: Costar.com) and higher than 2017's 73 million square feet. Net completions were lower in 2018 mainly due to delays from labor shortages but also because of the rising cost of building materials. This helped office vacancy rates achieve a sub 10% level that puts it on par with the lows last since in 2001 but landlords were only able to achieve rental increases of 2.2% in 2018, which was the most conservative hike since 2012. Many things can be said about office space such as that tenants have become fickle or that the supply of new product was dialed down in 2018. We like to think of the cycle as maturing and thus focus on assets with direct exposure to technology firms and knowledge-based industries with a growing global footprint.

Chart 4 – MacNicol 360 Degree Fund Product mix: March 31st, 2019



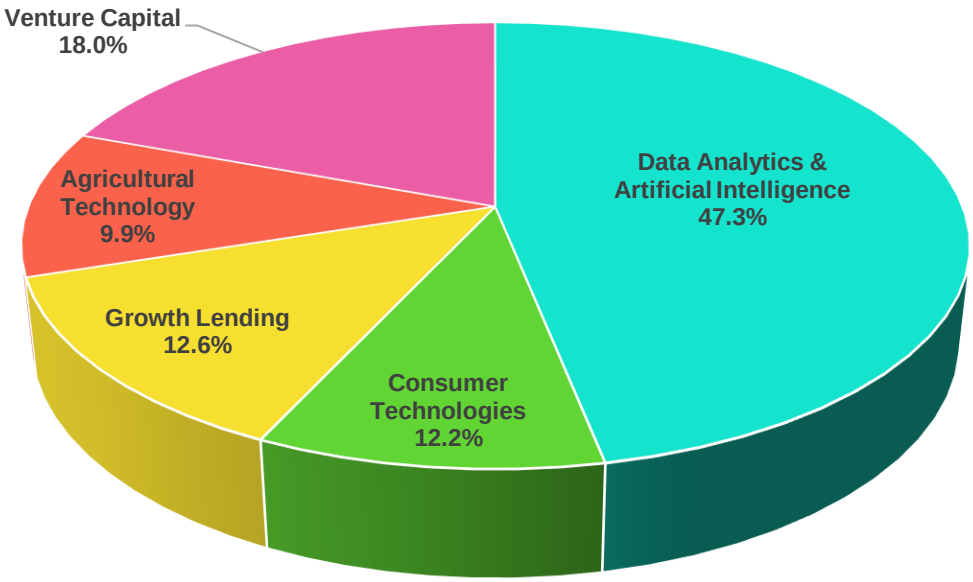
Retail. Secular changes within the retail sector such as the Amazonification of retailing and omni-channel marketing have pushed several parts of the sector out of favor. Our focus is on drawing a distinction between well located and well-designed assets that offer an attractive roster of national tenants and those in Tier 2 markets anchored by struggling retailers with bleak futures. Thankfully, Costar reports that as in 2008, 174 million square feet of net new retail space was completed in 2008 just 38 million net new square feet came online in 2018.

Although a retail vacancy rate of 4.5% might appear attractive, investors are encouraged to consider the drop in new square footage and the fact that after having averaged 3% per year over the past several years, rent growth slowed to 1.6% in 2018 with gains eroding rapidly in H2, 2018.

Private Equity and Technological Innovation:
Emergence Private Equity Fund, March 31st, 2018

Private equity is an asset class consisting of equity securities and debt in operating companies that are not publicly traded on a stock exchange.

Chart 5 – MacNicol Emergence Fund Industry Mix, March 31st, 2019



Beginning in August 2018, the NASDAQ index corrected well into Bear market territory. The resulting v-shaped rebound in technology shares during the first quarter of 2019 has been impressive. However, with the NASDAQ now just 200 points away from an all time high, investors are beginning to question whether publicly traded tech stocks can successfully breech the 8,000 point mark. Far from being a "dead cat bounce" tech stocks took off in 2019 with a great deal of momentum and we are starting to see some of that momentum fading.

Private Equity Portfolio Activity

Activity during the quarter was limited to activity in our secondary market program with Northleaf Capital Partners, one notable AI (Artificial Intelligence) exit and in our private

equity lending area which is also termed "growth capital". Beginning with activity in the secondary market space, a variety of projects were monetized through either exits or income distributions. In aggregate, the monetizations resulted in a 7.4% return on invested capital with capital gains outweighing income by a factor of 10:1. In the world of AI (a dominant thematic investment for us in the fund) Advanced Publications agreed to acquire portfolio company Turnitin Software for $1.75 Billion.

[Turnitin's 3.3x return multiple underscored not only the value inherent in cutting edge technology, but the value of integrity]

Turnitin is the world's most effective anti-plagarism detection solution and its seemless handling of academic misconduct commanded a very healthy 3.3x ROIC and a fund-level IRR of 28%, which we were very pleased with, but came at a time when the US college bribery scandal that has captured a number of prominent hollywood families is expanding in scope.

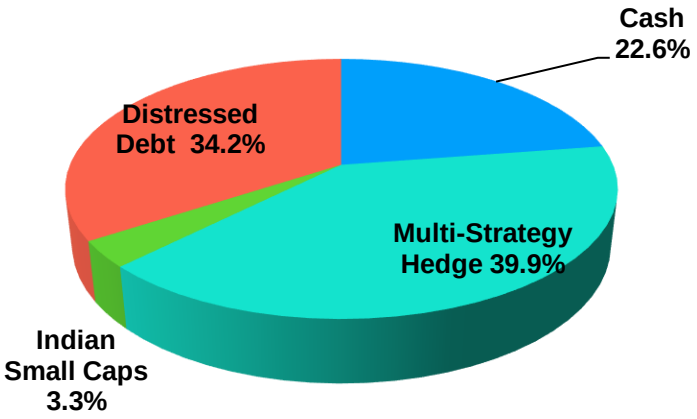
Growth capital lending was highly productive in the quarter, especially in Multiplier Fund I which continues in its "harvesting" life cycle stage. The weighted average interest rate on loans in the growth capital component of the fund stood at over 11.5% as the quarter drew to a conclusion and more distributions are expected in H1, 2019 after which time they will tapper off.

Hedge Funds: MacNicol Absolute Return Fund

The objective of the MacNicol Absolute Return Fund is to generate positive returns under most market and economic conditions, and to have little or no correlation to the US and Canadian stock markets. During the first quarter of 2019 the fund was flat as weakness in emerging market distressed debt was offset by the performance of multi-strategy hedge

funds. Indian equities rallied strongly during the quarter and we are pleased that the position stands as a profitable one for the fund. We will be attending the Fairfax Annual General Meeting where a complete review on India is expected. Finally, we allocated funds to a new relative value multi-strategy hedge fund that is expected to augment the low volatility, globally diversified nature of the fund.

Chart 6 – MacNicol Absolute Return Fund Strategy Mix, March 31st, 2019



Closing Comments

While we are pleased that overall markets around the world rebounded from their December 2018 lows, we feel the euphoria could potentially be short lived. In a wide variety of cases: markets have rebounded to their previous highs but not beyond that point. With disinflationary pressures spreading and monetary policy makers pivoting, we know that investors may be concerned that Central Banking officials are raising rates at precisely the wrong time. However, we are confident that the Trust will not let investors down should it be called into action.

Sincerely,

MacNicol & Associates Asset Management Inc.