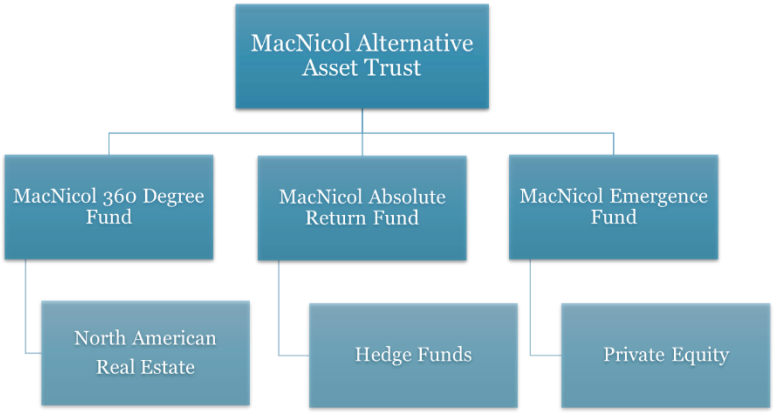
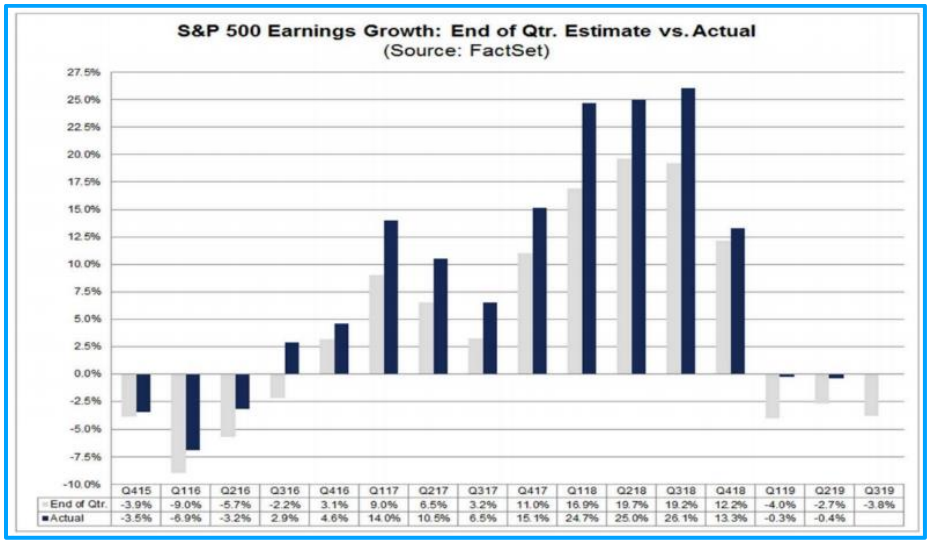
Alternative Asset Trust Third Quarter Report: September 30th, 2019

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

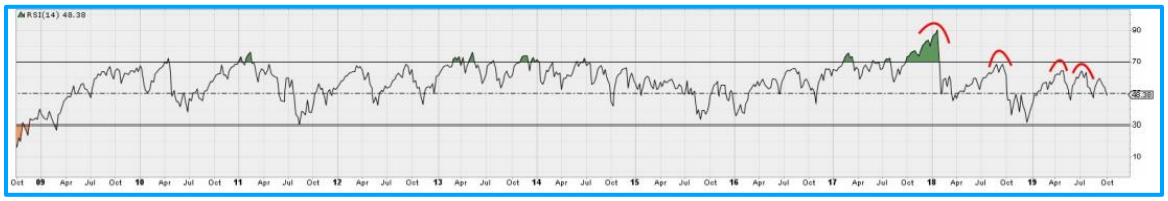


Alternative Trust Review: The goals of the Alternative Trust are to generate positive "real" returns (after-taxes and inflation) each year, and to generate annualized nominal returns of 6%-8% over rolling five-year periods. We are pleased to report that as at September 30th, 2019 the Trust has met its primary goals by generating a positive 1-year return of 7.3% and a 5-year return of 8.8%. The 3rd quarter of 2019 was highlighted by greater concern over corporate profit growth and the inability of the global economy to achieve modest inflation goals. The S&P 500 index reached a high of 3,025 on July 26th, 2019 but has not eclipsed that level since. Congestion in the market resulted from investors questioning whether sufficient growth catalysts remain for new highs to be achieved. From the perspective of corporate profit growth Table 1 prescribes an active approach towards asset management while Chart 2 tells a story of a market with lower momentum.



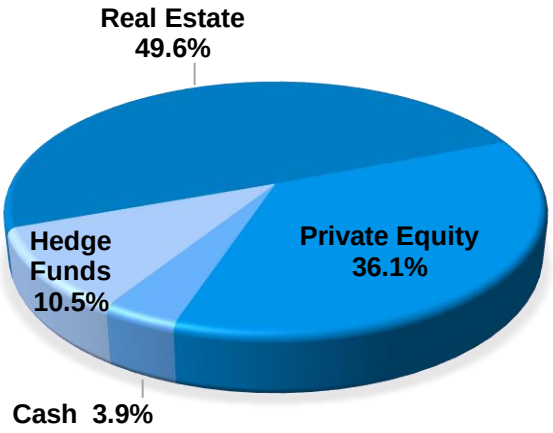
	Q415	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119	Q219	Q319
End of Qtr.	-3.9%	-9.0%	-5.7%	-2.2%	3.1%	9.0%	6.5%	3.2%	11.0%	16.9%	19.7%	19.2%	12.2%	-4.0%	-2.7%	-3.8%
Actual	-3.5%	-6.9%	-3.2%	2.9%	4.6%	14.0%	10.5%	6.5%	15.1%	24.7%	25.0%	26.1%	13.3%	-0.3%	-0.4%	

[Table 1 – S&P 500 corporate profit growth has slowed and is now negative]



[Chart 2 – Momentum investors now face investment head winds as relative market strength rolls over]

Chart 3 – MacNicol Alternative Asset Trust Asset Mix September 30th, 2019



Alternative Asset Trust Fourth Quarter 2018 Highlights

During the third quarter of 2019 the Alternative Asset Trust rose by 2.8%. Global hedge funds were lower in the quarter primarily due to the malaise in Latin American debt markets and broader equity market "congestion". Private equity was higher in the quarter as digital banking and dentalcare offset weakness in digital currencies. Real estate performed well in the quarter due to a reshuffling of asset mixes towards the safety that many real estate product types can provide, and as lower yields drove the cost of variable rate mortgages down. Our focus on growth markets in the South Eastern United States continued to pay off but with greater emphasis on investments west of Florida and Georgia. Cities north of Dallas Forth Worth and Austin [such as Oaklahoma City and Tulsa] now feature more prominently in the Trust's real estate holdings and will be more fully described later on. We are confident that the Trust will act as an effective counter-balance in client portfolios but also as a source of value-add as the pace of exits and capital being returned to investors ramps up.

North American Private 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, but also holds residential and commercial mortgages. The fund has exposure to dozens of partnerships that collectively encompass over 100 real estate projects across 6 well defined product types. Charts 4 and 5 described the fund's product mix and geographic positioning as of the end of September 2019.

Chart 4 – 360 Degree Realty Fund Product Mix at September 30th, 2019

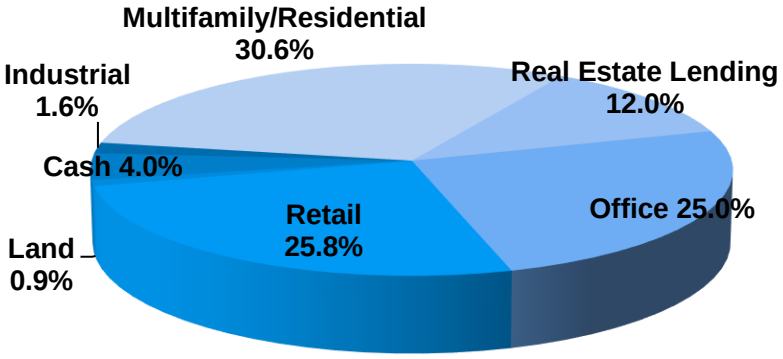
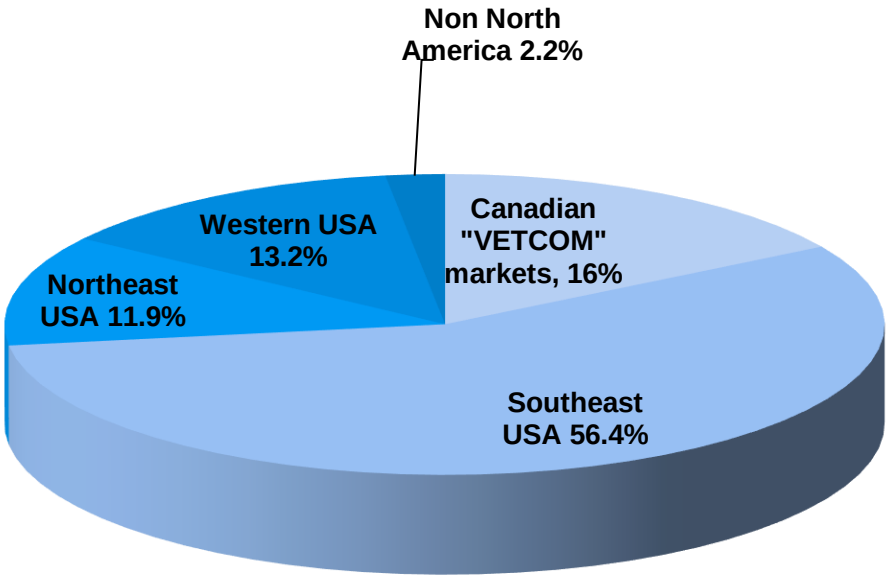


Chart 5 – 360 Degree Realty Fund Geographic Mix at September 30th, 2019



("VETCOM" stands for Vancouver, Edmonton, Toronto, Calgary, Ottawa and Montreal)

360 Fund Fourth Quarter Highlights: For the 3rd quarter of 2019, the fund rose by 2.6% in base currency terms and by a similar amount in local currency terms. The quarter was dominated by distributions stemming from both rental income and the sale of properties.

Commercial Real Estate: Commercial real estate's appeal to investors is rising due to supportive fiscal policy and liquidity on the part of (primarily) institutional investors looking to cash in. The quarter continued to see deal flow with more deals coming by way of cross collateralizations. Cross collateralization involves using an asset that is already being used as collateral for an initial loan as collateral for a second loan and we view this as opportunistic. As real estate continues to be a preferred asset class among institutional investors 2nd mortgages are tapping into the accrued equity of the existing asset base.

Multi-family Residential: Long a preferred real estate product type in the fund the Portfolio Manager has shifted more recent focus to Class B product for its tendency to outperform Class A product in a recessionary environment while maintaining much of Class A's locational premium.

Industrial: As this quarterly report was being prepared the MacNicol Investment Team was on the ground in Tampa conducting inspections of mixed-use commercial assets. A key feature long-term objective of industrial assets is to be aligned with the continued trend of digital commerce with the ability to be flexible in the short-term.

Office: One quarter of the fund's investments are offices and the performance of underlying assets was a bit of a mixed bag even as cap rates for office [as a whole] were very consistent at just under 6.5%. Absorption rates in suburban markets tracked ahead of downtown markets but have nonetheless moderated when compared to the 2nd quarter. Urban core office space's absorption rate was largely unchanged for the 3rd quarter. The fund exited a Midwest office opportunity in the quarter, which we discuss more fully below.

Retail. The ongoing digitization of retail continued to act as a headwind for traditional bricks and mortars retails. Retail is tracking lower as seen through data available in the NCRIF Property index and by cap rates that have broken out of a 5-year long trend. While the fund holds ample retail investments the majority of our retail product allocation is mixed use in nature or anchored by either grocery store or other recognized national brands.

[Retailers that focus on customer experience are protected by a thick layer of residential properties are better equipped to weather the Amazonian storm]

Real Estate Portfolio Activity

During the quarter the fund received numerous cash distributions from its portfolio of rental income producing assets. The fund also received a cash distribution from the sale of 579 W Randolph Street in Chicago. The fund owned a portion of 579 W Randolph through a partnership in an LLC and the exit resulted in a fund-level IRR of 32.6%.

[579 W Randolph Street, Chicago Illinois is a 114,000 square foot mid-west office asset acquired in February 2015]

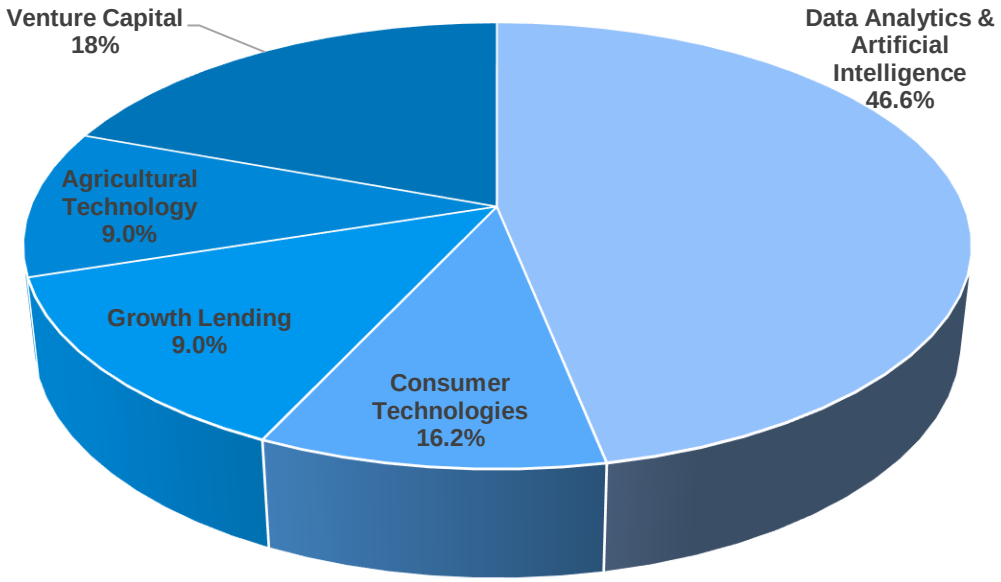
Also, during the 3rd quarter, our partnership with 13th Floor Investment continued to be an active one with the ground breaking of phase 1 of the link at Douglas Station. The first phase of the project consists of two distinct towers: a 312-unit innovative housing building catering to students and workforce housing, and a 421-unit flagship luxury apartment which will redefine apartment living south of Brickell. Both buildings will boast tremendous views of downtown and Biscayne Bay and be rich in features and amenities. The link at Douglas Station will also include a public plaza which will incorporate connectivity to the metro station and The Underline as well as a vibrant retail experience.

[The link at Douglas Station caters to millennials who are not interested in becoming car owners as well as mature tenants who value time over being stuck in traffic]

Private Equity as at September 30th, 2019

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

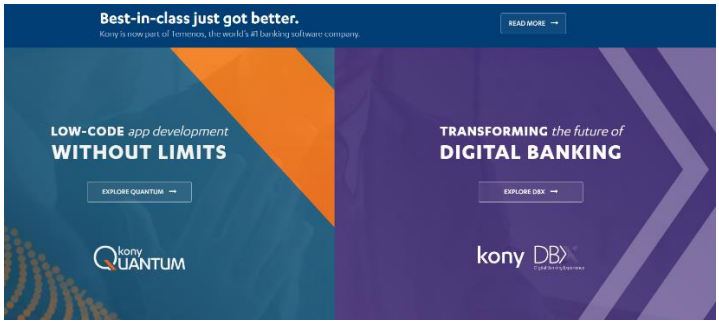
Chart 6 – MacNicol Emergence Fund Industry Mix, September 30th, 2019



During the 3rd quarter the NASDAQ technology index followed largely the same pattern established by the S&P 500. As in previous quarters the fund experienced distributions from transactions such as debt repayments in our growth lending portfolio to acquisitions in our data analytics and artificial intelligence segment.

Private Equity Portfolio Activity

The fund is very pleased to announce that on August 28, 2019 Kony, the transformative name in the cross platform digital space entered into a definitive agreement pursuant to which it would be sold for USD $580 million including holdbacks to Temenos, a large strategic firm that provides banking software to over 3,000 banks in 150 countries. The MacNicol Emergence Fund was an equity investor in Kony through a limited partnership and the take over represented a 3.2x multiple on invested capital. The Kony transaction served to underscore the importance that leading, privately held digital companies play in the fund.



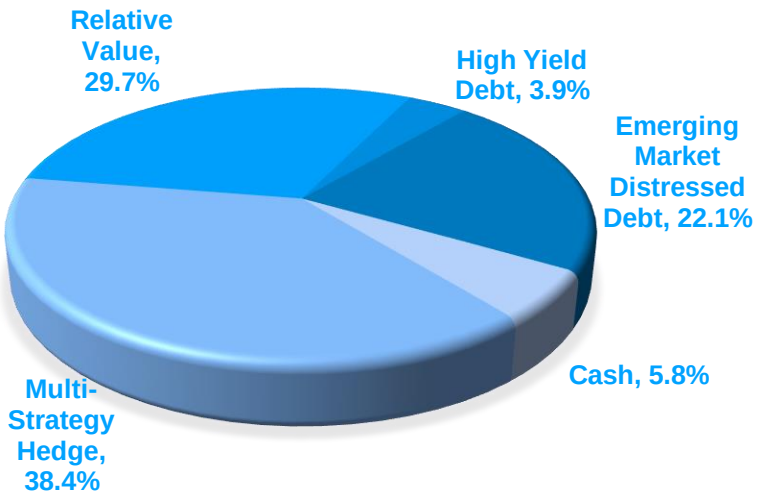
[In a world where people work across multiple devices every day (smart phone, laptop, desktop and tablet) Kony's encompassing approach to technology allowed organizations to bypass numerous hurdles encountered in the development process. Kony's focus on optimizing each users experience is what led Swiss digital banking giant Temenos to acquire the company in August]

The fund also received its 22nd consecutive distribution from our growth lending portfolio led by Multiplier Capital. Through their established excellence in growth lending Multiplier Capital is able to leverage the US federal government's SBIC program in order to make loans to growing companies.

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 3rd quarter of 2019 the fund was lower by 2.5%.

Chart 7 – MacNicol Absolute Return Fund Strategy Mix, September 30th, 2019



Latin American debt markets performed poorly during the 3rd quarter of 2019 on the expectation that Argentina would return to the rule of former President Cristina Fernandez de Kirchner (CFK). CFKs strong progress towards the Argentinean capital spooked investors due to the prospects of not only capital controls but of a potential standoff with the International Monetary Fund (IMF). The MacNicol understands Argentina's questionable track record in sovereign debt markets, as well as, its adversarial relationship with the IMF. Nonetheless, we carefully reviewed the fund's exposure to Argentinean debt and confirm de minimis exposure during the quarter and in fact all of 2019 YTD. We note that geographic exposures are monitored by us on a monthly basis as part of our regular management of the fund and not a reaction to the situation in Argentina. At the same time, the fund does own Brazilian debt, which was hit by investors seeking refuge to the less liquid (and possibly illiquid) Argentine debt a priori. The MacNicol investment team fails to see the logic in the asserting that the economies of Argentina and Brazil are similar enough to view their respective bonds as interchangeable. Therefore, we believe that the exercise of selling Brazilian debt as a technique to hedge Argentinean debt will only work transiently, and ultimately benefit goals-based investors with a longer-term focus.

Closing Comments

As the Trust enters is swan song quarter for 2019, we are pleased with its performance year-to-date and remain confident that the allocations described earlier will add value to investors. Despite a wide variety of market conditions, political regimes and monetary conditions the trust has achieved annualized returns net of all fees and expenses of 9.5%. Perhaps more importantly the trust has achieved its return profile with lower volatility than conventional equity markets. For context, the S&P500 index has experienced average annual volatility of 14% versus the trust's 7.4%. At the same time the trust continues to provide investors with a window palpable evidence that many of our long-term secular themes have added value. Seminal investments in companies like Shopify enrich the consumer experience while more recent investments in companies like Turnitin, DataCandy and Kony enrich the way we learn, communicate and bank. And finally, our award-winning hedge fund, the MacNicol Absolute Return Fund, will continue to quietly provide investors with the goal of equity like returns through its own unique path.

This October also marks a count-down to a significant milestone for the trust, which we will be very happy to share with you. In a little less than a year the Trust will have completed its first 10-years as a real-world investment solution for real investors. While alternative investments are indeed a hot button topic many providers struggle to bridge the gap between theory and practice. We are very proud that our pragmatic approach to alternatives underpins our independence as an organization and bolsters our unwavering view that in order to have a safe future tomorrow you need a safe harbor today.

We look forward to sharing future exit stories with you. Whether they come from the world of bleeding edge of technology investments, innovative hedge fund partnerships or the sleepier, albeit tried-tested-and-true, world of real estate, we hope that you will enjoy reading about these successes as much as we enjoyed finding them. Until then, we believe the Trust stands well positioned to support the needs of existing client portfolios by providing better diversification and enhanced risk-adjusted returns.

Sincerely,

MacNicol & Associates Asset Management Inc.