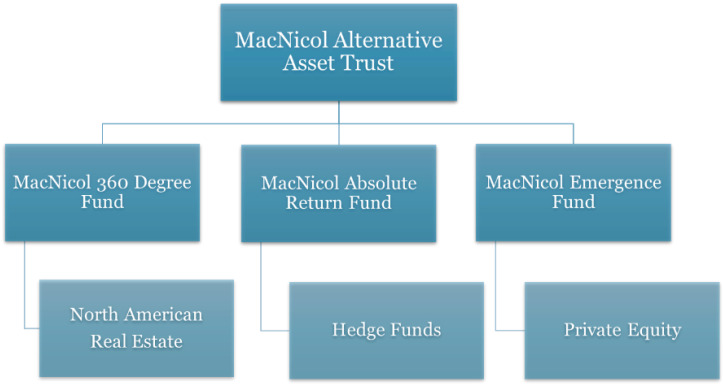
Alternative Asset Trust Fourth Quarter Report: December 31st, 2019

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 a diversified array of 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 vehicle 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

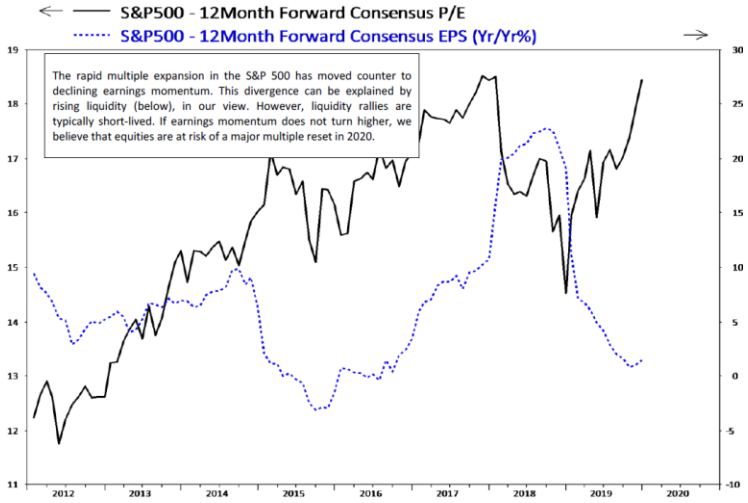


Alternative Trust Review: The goals of the Alternative Trust are to generate positive "real" returns (after-taxes and inflation) each year, and to generate annualized nominal returns of 6%-8% over rolling five-year periods. We are pleased to report that 2019 was a positive year for the trust and that, on average, for each of last the 5-years to December 31st, 2019 the trust was higher by 7%.

2019 Investment Highlight:

The top story of 2019 was the liquidity-fueled performance of US equities, especially in the 4th quarter. M2 money supply growth began escalating in the summer and accelerated during Q4. Liquidity dripped and then poured into US equities, which saw sharp gains as an area of longer-term growth and short term respite against geopolitical risk, despite a decline in corporate profit growth and inflation globally.

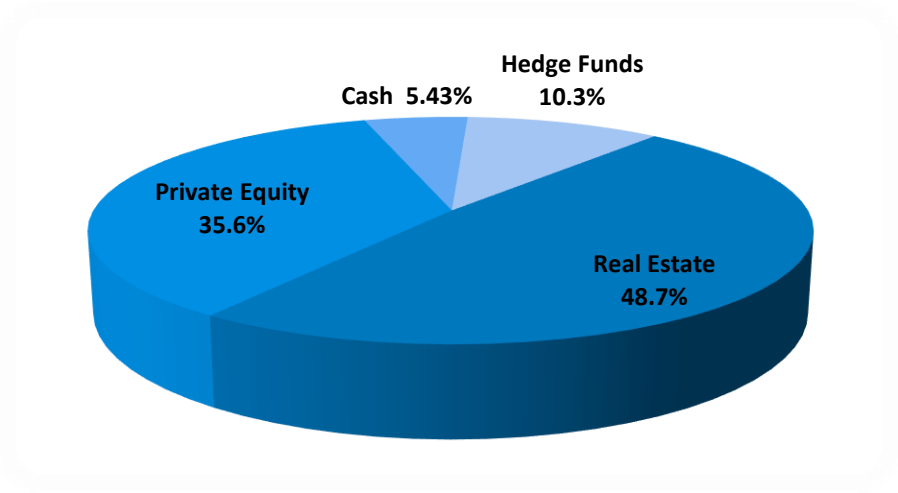
The S&P500 ended 2019 at 3,230 points, nearly 30% higher than where it started off the year. Stocks enjoyed popularity in 2019 with some enjoying notoriety and in many cases strongly outperformed alternative assets. Nevertheless, alternatives were positive for the year and well positioned to provide diversity and strength in 2020.



[Chart 2 – The "dislocation in valuations" is highlighted in this chart from TD Securities. Stock valuations in black have "torn" away from corporate profit growth in blue.]

Overall, the Trust's asset mix remained broadly unchanged with a slight elevation in cash [up 1.56%] relative to the 3rd quarter of 2019 as the main change in asset mix.

Chart 3 – MacNicol Alternative Asset Trust Asset Mix December 31st, 2019



Alternative Asset Trust Fourth Quarter 2019 Highlights

During the fourth quarter of 2019 the Alternative Asset Trust was predominantly flat. Hedge funds were higher in the fourth quarter as losses in emerging market debt turned the corner and began moving higher later in the year. Private equity was higher in the quarter and - throughout the year - as digital banking, digital CRM systems and robotics offset weakness in digital currencies and agricultural technologies. Real estate, though choppier than usual, ended the quarter high. South Eastern US growth markets continued to pay off with multifamily residential real estate leading. We are confident that the Trust will act as an effective counter-balance in client portfolios especially as valuations in many areas of conventional equity markets approach levels judged by many market participants as elevated and thus prone to more frequent and more jarring corrections on issues spanning geopolitical risk to global health threats and cyber security risks.

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 December 2019.

Chart 4 – 360 Degree Realty Fund Product Mix at December 31st, 2019

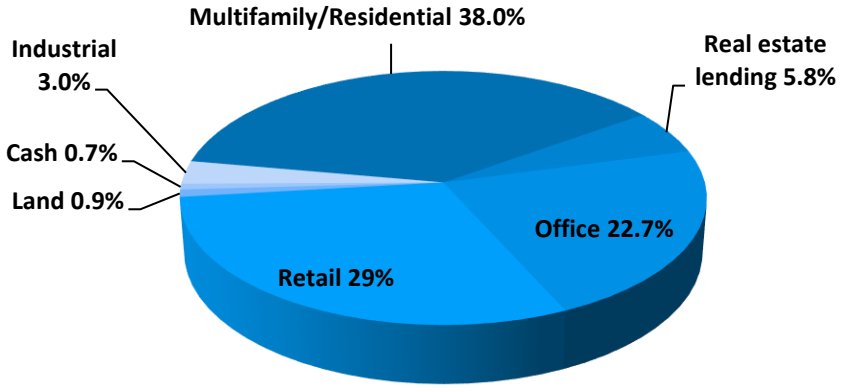
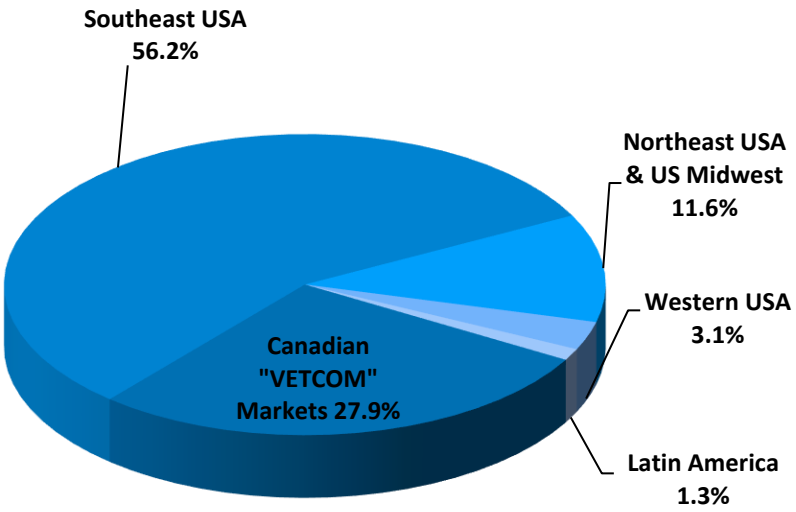


Chart 5 – 360 Degree Realty Fund Geographic Mix at December 31st, 2019



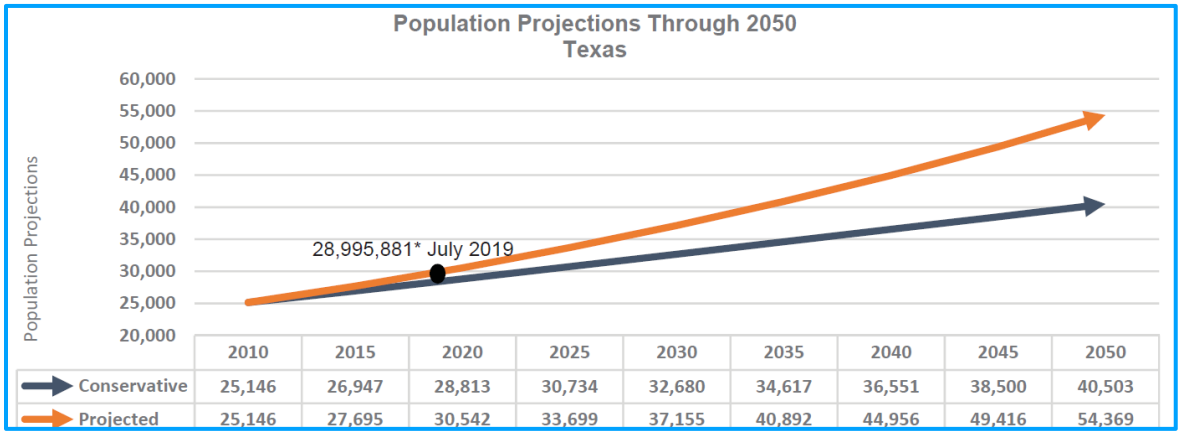
("VETCOM" stands for Vancouver, Edmonton, Toronto, Calgary, Ottawa and Montreal)

360 Fund Fourth Quarter Highlights: For the 4th quarter of 2019, the fund rose by 0.9% driven be strong lease activity in memory care and multifamily residential assets.

Commercial Real Estate: The appeal of Commercial Real Estate (CRE) is rising but not for the reasons you may suspect. Previous iterations of this commentary highlighted CREs main driver(s) as location, location, location. Today, more of our understanding of CRE is centered around the fusion of location, information and analytics. More and more tenants are looking for smarter ways to make their businesses grow and the MacNicol 360 Degree fund seeks CRE opportunities that run parallel to the needs of today's large Tier 1 tenants, proof positive that technology is touching virtually every facet of money management.

Multi-family Residential: Long a preferred real estate product type in the fund the Portfolio Manager recently began researching whether capital gains opportunities in multifamily now offer superior risk/return attributes versus assets purchased purely for income. We hope to update you about our findings in subsequent editions of this report. As many of our investors know we are well represented by residential and CRE investments in the State of Florida. Perhaps not as well known are the growth prospects available to residential and CRE investors in the State of Texas.

The MacNicol Team has invested and will continue to invest in the State of Texas and in particular in two of the top metropolitan statistical areas (MSAs) which are Houston and The Woodlands Sugar Land neighborhoods in Fort Bend County. Each of these MSAs easily places on any investors top 10 list of highest growth US MSAs, so we continue to study the region for opportunities for our investors. Broadly, the State of Texas continues to grow adding 336,700 non-agricultural jobs as of November 2019 and tracking at an annualized rate of 2.7% which is nearly double the rate of the entire United States of America. In the construction industry in particular, the State of Texas ranked 1st in annual job growth with a rate of 7.49% compared to 2018 and well ahead of the national average.



	2010	2015	2020	2025	2030	2035	2040	2045	2050
Conservative	25,146	26,947	28,813	30,734	32,680	34,617	36,551	38,500	40,503
Projected	25,146	27,695	30,542	33,699	37,155	40,892	44,956	49,416	54,369

[They say things are bigger in Texas and that is true of the State's population. At around 30 million (and counting) there are roughly 8 Texans for every 10 Canadians. Texas is a big state and it is getting even bigger.]

According to the US Census Bureau, Texas continued to add more people than any other State. From 2018 to 2019 the population of the Lone Star State grew by 367,215 residents and account for almost one-quarter of the population growth of the entire United States of America. Equally important is the composition of Texas' economy. Widely regarded as a hot bed of activity in the Oil and Gas sector, Texas' economy is now more broadly diversified than ever. According to Cushman and Wakefield, as at the end of 2018: information technology, financial services, professional and business services and education represented 43% of the Texas economy. As you may be aware multifamily residential real estate is a "core" focus area for the fund and no where is that more strongly the case than Texas.

Industrial: The fund recently engaged IP Capital Partners in Boca Raton, Florida to expand the sleeve allocated to industrial assets and took a position in a firm specializing in cold storage to expand our more modest exposure to this important real estate product type. Cold storage terminals, such as those that line the 407 ETR and 401 highway systems in the greater Toronto area represent lower risk ways of participating in the trend towards frozen food and meal delivery services such as Grocery Gateway. Cold storage terminals area also hubs for the medical industry as many biotics and synthetics require extremely cold temperatures in order to maintain efficacy during shipment. We hope to inform you of our continued progress in the industrial space early later on in 2020.

Office: The office sector remains more closely aligned due to the fact that overall construction activity has moderated to a level that helps stabilize demand for square footage and rent growth. Demand for space is dominated by three core tenant types: technology firms looking to expand their footprint as has been the case for most of the current cycle and financial services firms [mainly banks and insurance companies] looking to re-lease. With that said, according to data from CoStar, in 6 of the top-10 USA tech markets net absorption has declined relative to 2018. Net absorption is defined as the total vacant square footage at the start of a time period plus square feet constructed (or "brought online") during the period, less square feet demolished or otherwise removed during the period less, square feet vacant at the end of the time period. In order to offset upward, late-cycle pressures on occupancy, our focus is on buildings with longer-term leases and those where building and/or management upgrades can add value.

Top-10 "Tech Talent" Markets According to CoStar

San Francisco Bay Area
Seattle
Washington
New York
Austin
Boston
Denver
Atlanta
Raleigh
Dalls Fort-Worth

Perhaps more relevant to the absolute numbers behind office performance is the evolution of "co-working". Co-working is essentially flexible office space where firms allocate a proportion of dedicated office space on a revenue generation basis that employees get to share. Between 2010 and 2018 the supply of flexible office space increased by an average of 26% per year according to CBRE.

In all likelihood the trend will continue if anything and should actually accelerate as the last 3 years ending in 2018 saw the pace of flexible office supply reach 30% with CBRE models forecasting 2019 to expand by 36%. Although flexible office space remains a proportionately small share of the overall office market and the recent fiasco at *WeWork* downplayed the subsector's credibility, it remains a force with significant institutional holds it is concentrated more heavily in markets like downtown Seattle, Mid-town Manhattan, San Francisco's financial district and West Los Angeles. The potential of flexible co-working space is undeniable but so too is the risk. In a major economic downtown, if major coworking space users begin to vacate space in droves in favor of space they either lease [or own directly] significant pressure may be placed on market valuations.

[*WeWork* had a rough ride in 2019. The company filed what was supposed to be the paperwork for its IPO in late August and then a month later slashed its valuation from $47 billion to $10 billion while removing CEO Adam Neumann. Then in October, the company was swallowed by Softbank who paid Mr. Neumann $200 million to step down as company Chair and cut the company valuation again – this time to $8 billion. Worse, in November the company had to part with 2,400 employees.]

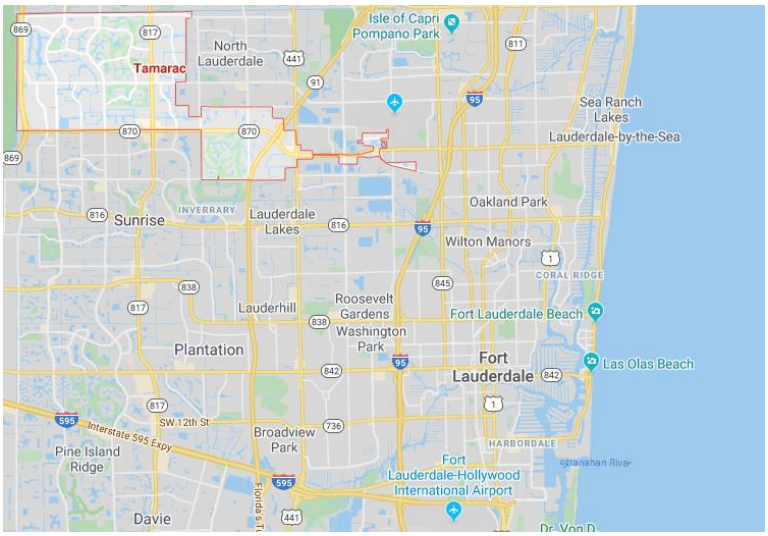
Retail. If your only benchmark for retail property was Yorkdale Shopping Centre in Toronto, you'd have a very skewed view of reality. Despite an economy that is for the time being healthy the shift by many retailers to omnichannel business models and online shopping have triggered a wave of store closures and a smattering of retailer bankruptcies.

The first half of 2019 was especially slow for retail space absorption according to CoStar with tenants absorbing just 9 million square feet in newly formed retail space as compared to 19 million square feet and 33 million square feet in the first halves of 2018 and 2017 respectively. Though rents were up 1.9% on a year over year basis, the gain represents the slowest margin of progress since 2013.

[This is the view most people have of Toronto's Yorkdale Shopping Centre. Reflective of strong demand for retail property space, Yorkdale is less the rule and more the exception to the rule.]

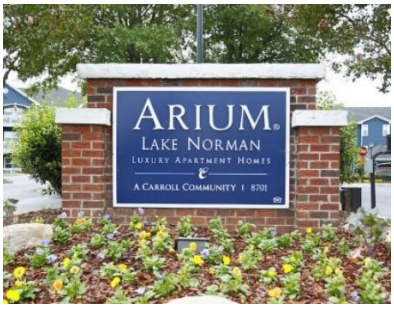
Real Estate Portfolio Activity

During the quarter the fund received numerous cash distributions from its portfolio of single-family homes as tenanting of the Manor Parc development in Tamarac, Florida ramped up. The MacNicol Team has visited Manor Parc in person and during the morning rush hour in Fort Lauderdale to experience logistic considerations while we met with sponsor 13th Floor Investments. At the present time MacNicol is conducting due diligence into 13th Floor's latest partnership and we hope to be in a position to update you on specific transactions by the end of the first quarter of 2020.



[Manor Parc is a development of single-family homes in Tamarac, Florida. We have toured Manor Parc homes in person and experienced being inside many of the development's model homes: they are really very nice and even in US dollars make us question why we choose the freezing cold congestion of Toronto over options like "eduring" the so-called Fort Lauderdale rush hour.]

The fund received distributions from the sale of a 5-property portfolio owned through a partnership with the Carroll Organization in late November. The Arium branded properties originally acquired between 2016-2017 and totaling 1,700 units in Florida, North Carolina and Texas were exited for gross returns in the 15-26% range on multiples of 1.5-1.9 times invested capital.

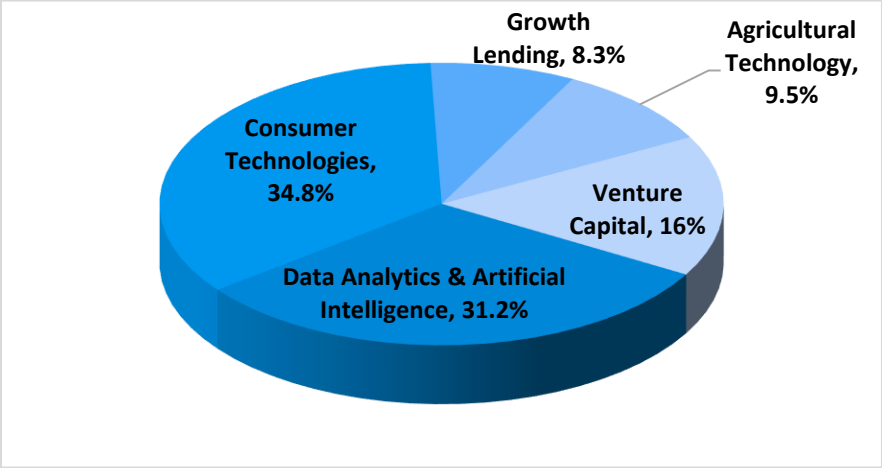


[Arium Lake Norman is a 312-unit gated community located in the Charlotte suburb of Lake Norman. The property features ponds, ample greenspace and the sort of high-tech amenities working people like. It's also just ½ a mile from US I77 for quick access into Charlotte, NC.]

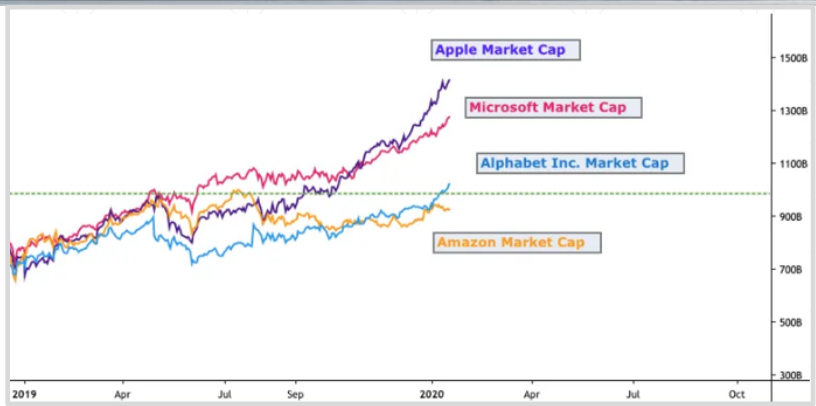
Private Equity: MacNicol Emergence Fund

Private equity is an alternative investment class and consists of capital that is not listed on a public exchange. Private equity is composed of funds that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity or the potential re-listing or IPOs of private companies following an optimization period. The MacNicol Emergence Fund achieves private equity exposure through 3 main vehicles: traditional GP/LP structures, equity co-investments [a minority investment, made directly into an operating company, alongside a financial sponsor or other private equity investor, in a leveraged buyout, recapitalization or growth capital transaction] and direct investments in which Emergence owns the underlying shares of a privately held firm.

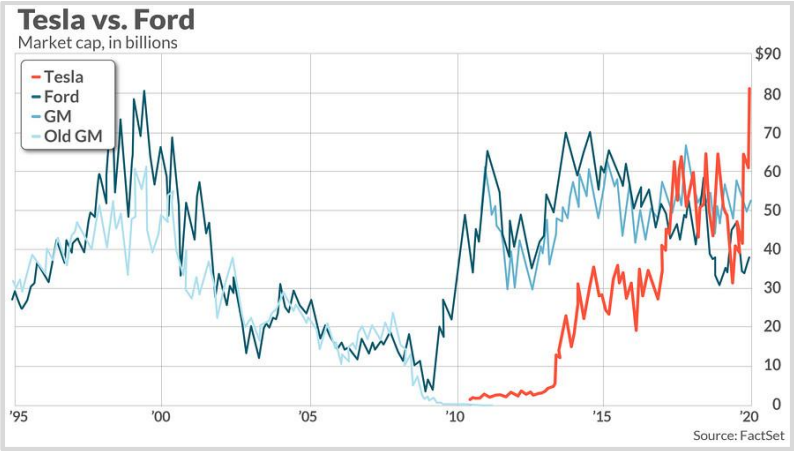
Chart 6 – MacNicol Emergence Fund Industry Mix, December 31st, 2019



During the 4th quarter of 2019 large capitalization US technology names extended their lead over broader equity markets in a way that quite frankly took our breath away. In certain situations (we outline two on the following page) the altitudes reached harkened us back to the Dot.com bubble of the 2000's. Compounding our concern that it might not really be that different this time is that ongoing liquidity infusions on the part of Central Banks could indeed exacerbate the situation and propel valuations in tech stocks even further from realty than they are today. The Emergence Fund was up slightly during the quarter at just 20 basis points but finished the year in nearly 12% higher as the liquidity that finds its way into privately held companies tends to take a slower, more measured pace [but also tends to stay put for the long-term] which we much prefer especially when things go bad. Even when we invest in technology, we do so with an eye on safe guarding your capital.



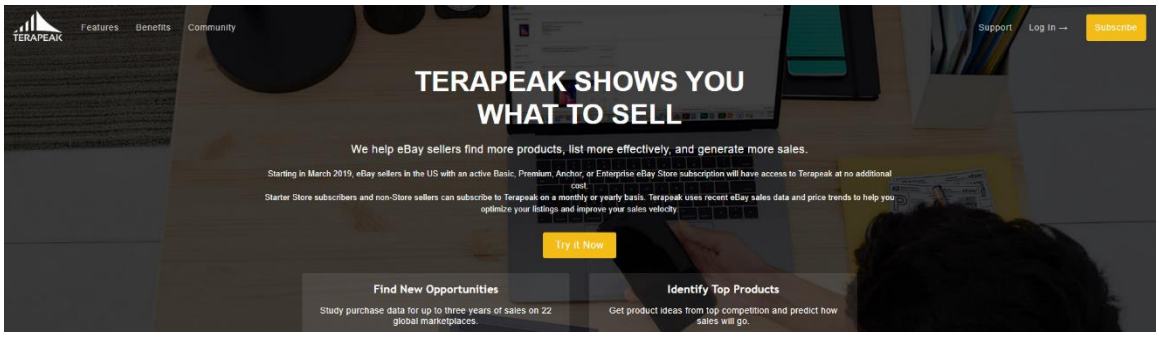
[There are now between 3 and 4 publicly listed companies worth a Trillion dollars (or more) and just to be clear that's $1,000,000,000,000…each…not as a group.]



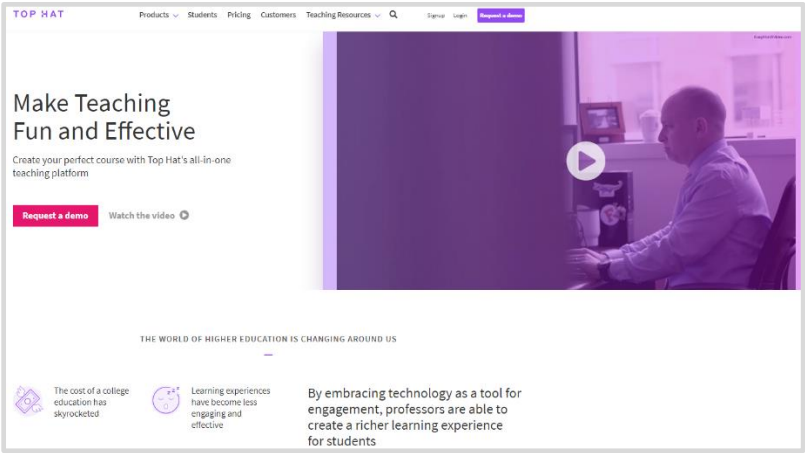
[For better or worse technology companies are often forgiven for experiencing valuation dislocation. But try to explain this to your friends: Tesla are now worth more than all of the shares of General Motors and Ford combined. Don't get us wrong, the Tesla Model "Y" is a very cute little automobile…it's just that for every single Tesla sold Ford sells approximately 20 of its own vehicles.]

Private Equity Portfolio Activity

During the quarter the Fund was pleased to receive notice that the Fund received a distribution from Terapeak a firm we held through a limited partnership entity. The distribution confirmed in our minds data analytics and artificial intelligence are not only growing but growing at an accelerated pace as more businesses look to enhance their existing business models. Additional follow-on investments were made in TophatMonocle Corporation.

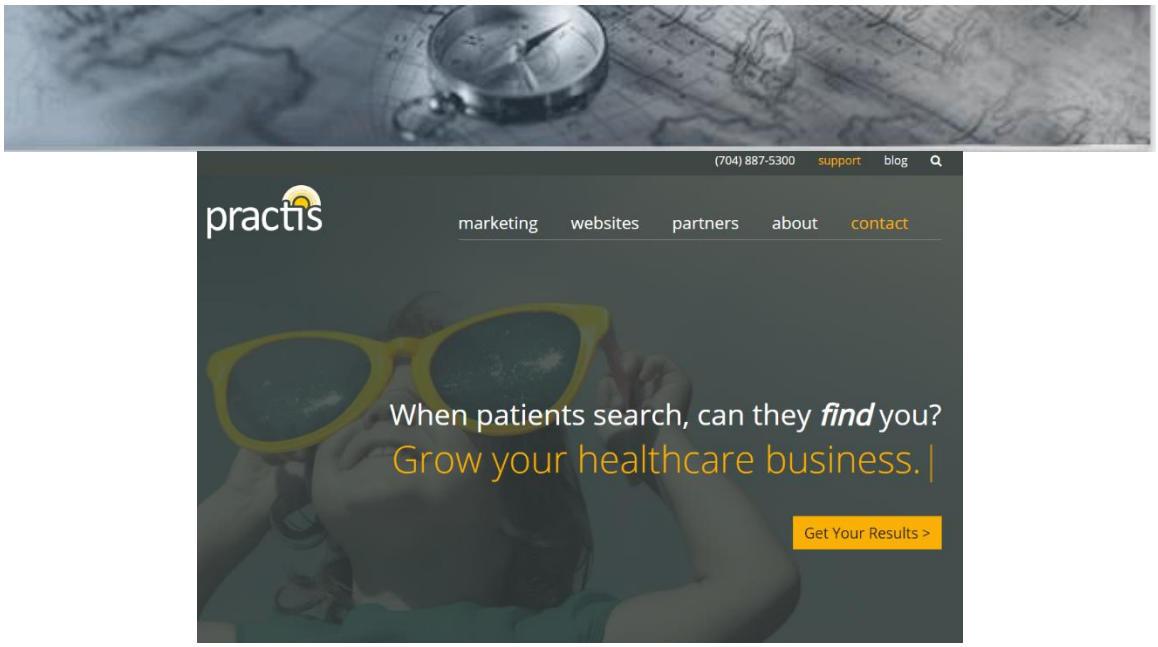


[Selling stuff online is simple. Knowing what to sell and where to sell it are completely different matters. That's where a company like Terapeak comes in and users (as well as investors) are taking notice.]



[TopHatMonocle Corporation makes being a professional educator more effective. Few investments have the sorts of long-term implications of TopHatMonocle Corporation, even if many investors have never heard of the company before.]

During the 4th quarter of 2019 the Emergence Fund acquired Series A preferred units of Charlotte North Carolina based Practis Holdings. Practis helps healthcare businesses attract patients and grow their organizations using the web. Practis exists as a marketing extension for business clients and enables them to connect with their patients more effectively. Practis' highly systematic, HIPAA compliant and highly scalable marketing services allow healthcare providers to generate a growing practice with a greater emphasis placed on recurring revenue base.

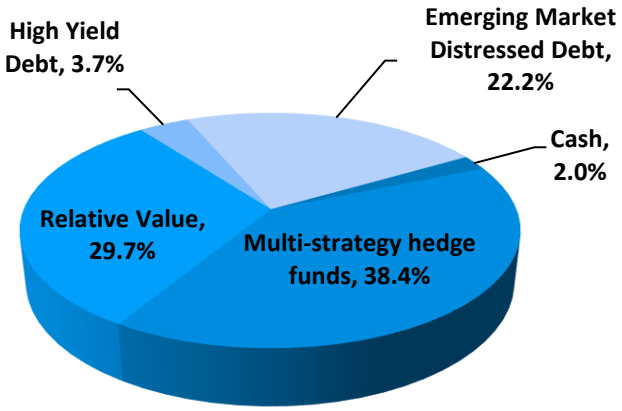


[Practis helps its clients find patients. MacNicol and Associates helps its clients find Practis. A combination of proprietary technology, HIPAA compliance and 40% EBITDA margins make Practis a clear choice for the Emergence Fund.]

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 4th quarter of 2019 the fund was lower essentially flat and balanced strength in certain of our global macro driven programs against weakness in emerging market distressed debt.

Chart 7 – MacNicol Absolute Return Fund Strategy Mix, December 31st, 2019



Latin American debt markets performed better during the 4th quarter of 2019 but at a pace insufficient to conclude the year in positive territory. As you may recall earlier in the year, we carefully reviewed the fund's exposure to Argentinean debt and confirmed de minimis exposure – even as investors globally used debt markets in places like Brazil to implement short positions to hedge their own Argentinean exposure [i.e. throwing the baby out with the bath water]. Argentina's ex-President Mauricio Macri rose to power on a platform of low debt but of a desire to rid Argentina of its numerous problems. Untimely and unnecessarily large cuts in export taxes, old debt repayment and the transitioning of some debt to so called vulture capitalist funds with exorbitantly high interest rates were done in the name of luring in more foreign direct investment. We certainly cannot claim to be experts in Latin American politics but even to us the movements by Macri's economic ministry seemed foolhardy. Macri accentuated these mistakes with a $57 Billion bailout from the IMF. Although Argentina struggles with high inflation and higher unemployment, we – at the very least – feel that debt has stabilized at the present levels and poised for a move higher as investors globally come to a greater sense of understanding the workings of Argentina's new Economic Minister Martin Guzman.

[As far as Economic Ministers go, Argentina's Martin Guzman is extremely young at just 37 years of age. Guzman sports a Ph.D., in economics from an Ivey league school in Rhode Island, and is a noted expert in sovereign debt. But can a 37 year really know the dangers of debt?]

Time will tell whether the leading actors in the ongoing drama that is the world of Latin American debt will put on performances worthy to garner attention from investors around the world. The MacNicol Team is confident with our selection of the people we have monitoring these and other issues and will report back on progress in the next quarter.

Closing Comments and Program Milestone

We certainly appreciate the temptation to chase financial markets or to dump excess cash into the latest investment craze. Making investments with great hype, and in great haste, can be exhilarating. But it can also be dangerous. Our business is centered around clients and grounded in prudence that comes with a responsibility to act as Fiduciaries for our people who entrust their financial future to us. The MacNicol Alternative Asset Trust did not outperform many developed equity markets in 2019 – but then – it was never designed to play follow-the-leader. In conclusion we are confident in the Trust, its assets and our various Partners both domestically and around the world. But most importantly we are grateful for the trust placed in the Trust by you our valued investor. Out of all of the Trust's important assets, none is prized more highly by us than your trust.

2020 is not just another year for the MacNicol Alternative Asset Trust. We began publishing monthly return data for the Trust in June of 2010, which means that in a little less than 6 months our firm will have successfully applied the art and science of alternative assets in client portfolios and in so doing brought an approach once reserved only for well-to-do pension programs and members of the Mayfair economy to main street.

Lastly, we are very pleased to inform you that we have begun working with Goodman & Associates LLP, the program's long-standing auditor. This will be the program's 10th annual audit and will confirm a 10-year track record of safely harbouring alternative assets into client portfolios today for a safe future tomorrow.

Sincerely,

MacNicol & Associates Asset Management Inc.