Dear Investors,

We hope that you and your families are well, and well informed about the status of those important to you. These are certainly unprecedented times and much has changed since we last reached out to you in *The Monthly*. As the COVID-19 health situation and ongoing financial market volatility have continued to unfold, we recognize that many of you will have increasing concerns regarding your investments with MacNicol & Associates Asset Management.

As you can appreciate, we are in the midst of a situation that is very fluid and rapidly changing. There are a wide variety of views regarding the virus and how long it will last and what sorts of impacts it will have in the short and long-term. Ultimately no one [ourselves included] truly knows how long or how deep the impact of COVID-19 will be. As a result, we are not focused on discerning what those short and long-term impacts might be. Instead, our focus has been to prioritize a search for strong companies with temporarily weak share prices, and thus highly attractive long-term valuations, and on reviewing existing investments with an elevated level of thoroughness. Though the former of these two priorities continues we are in a position to update you on our Alternative Asset Program which goes by the name of the "Alt Program" internally. Because the Alt Program's holdings represent a diversified array of properties, private businesses and hedge funds, we will communicate our update to you in a series of three sequential category-specific updates beginning with real estate, turning to private equity and concluding with hedge funds.

To date, there has not been a noticeable impact on our real estate holdings as a whole though some stresses are beginning to surface. As you may know, real estate represents the largest category of holdings in out Alt Program. As discussed in the latest edition of Alternative Asset Trust Fourth Quarter Report: December 31st, 2019, real estate represents roughly half of the Alt Program's assets and that is why we deal with this category first and in considerable detail.

The *majority* of our real estate holdings are in multifamily residential real estate [i.e. apartments, condominiums, townhomes, single family homes and garden-style communities] and commercial real estate [i.e. large office towers such as Toronto's Scotia Plaza and logistics terminals or industrial complexes that typically connect to densely populated urban centres and in particular "gateway" cities]. While we also have exposure to retail real estate holdings our retail assets are either flanked by or beneath large condominiums, office towers or transportation centres or tenanted by Tier 1 (National) tenants in suburban areas. Our real estate holdings also include parcels of land, however unlike older "legacy" land banks, more recent acquisitions of land have utilized a strategic approach.

Please allow me to explain what "strategic" means in greater detail through the use of an example.

130 Bloor St. West, Suite 905, Toronto, ON M5S 1N5
Tel: 416-367-3040 Toll free: 1-866-367-3040 Fax: 1-877-215-4044
Email: david.macnicol@macnicolasset.com URL: www.macnicolasset.com

A single-family home developer in Texas identifies a parcel of land they contract to develop once feasibility studies have been completed. The developer determines through the studies that the parcel of land has what it takes to build a successful community. Though the developer only requires the acreage necessary to start "Phase 1" of the project - it must nevertheless purchase the *entire* parcel at closing. The developer approaches a local private equity firm to acquire the acreage necessary for "Phase 2" of the development and "bank" it until the building of homes commences. Since the developer is not utilizing its own cash to hold vacant land it is effectively employing off-balance-sheet financing. Furthermore, since the developer does not have to sink cash into the *entire* land parcel as the project develops it assigns the purchase contract to the private equity firm along with a contract to "re-purchase" the land from the private equity firm in the future. MacNicol & Associates, through its investors, supplies capital to the private equity firm and thus becomes a partner in the transaction. While simple in concept, MacNicol & Associates thoroughly scrutinizes all aspects of such transactions and *requires* the following assurances in order to proceed: the developer must perform all feasibility and due diligence to our satisfaction, the developer must obtain all entitlements for *all* of the land [i.e. drainage permits, water supplies, waste water discharge, utility formations and jurisdictional reimbursement agreements] and finally the entitlements must be recorded on the land and the parcels must be nearly or completely mortgage-free. In this approach, the developer can focus on building homes, the private equity firm can focus on returns and MacNicol & Associates can focus on providing its clients with the opportunity to participate in the appreciation in land valuations in a manner that safeguards client capital much better than other approaches.

Our real estate holdings also include hotel properties and this is one area where we are beginning to see stresses. As you will appreciate, the COVID-19 situation has caused a dramatic decline in travel and tourism generally. However, it is worth noting that because hotels represent less than 5% of our real estate holdings, we are unlikely to experience the sort of extreme turbulence that comes with a much higher allocation to hotels. Unfortunately, we do anticipate the hotel sector - even the positions we hold - to underperform targets if the virus expands or lingers.

With that said, when it comes to leverage, it is worth revisiting a point I have outlined in the past that should give you comfort. Our properties maintain relatively low Loan-to-Value (LTV) ratios in the 65% range. During periods of robust economic growth our more conservative approach to leverage has caused us to leave returns on the table, but during times like these our more conservative standard of leverage is a source of strength. While all real estate investments will be impacted by the current situation in some way, properties with LTV ratios in the 80-90% range will be hurt to a much greater extent. An important second point for us to mention is that our assets are high in quality. In real estate, "high quality" defined properties are newer [in our case an early 2000’s vintage on average] and in good locations. "Good" in the context of a location is any large area experiencing positive demographic tail winds. More specifically, this means Metropolitan Statistical Areas (MSA’s) with at least 150,000 people growing at double the rate of the overall average of the United States. Our focus on good locations results in a mainly Class B+ asset-base with several Class A assets as part of the mix. These assets will inevitably experience some type of decline in performance but are in a *much* better position to whether the storm that low B, C, or D type properties whose residents are, unfortunately, only marginally attached to the workforce and tend to be the first to experience layoffs.

While we remain confident about the overall durability of our real estate holdings, we will not have a real idea of the potential revenue slowdowns until late April when the April collection cycle largely comes to a close. As I mentioned, we have already begun to see some stresses on hotel properties and in certain assets that have retail on the ground floor as a number of those retail locations have been forced to shut down. Fortunately, at these properties, the retail units are a small component of the overall revenues though the longer the situation drags on the more visible will be the void the lost revenues from closed locations.

To conclude, I would like to leave you with 4 parting thoughts:

1) The entire team at MacNicol & Associates Asset Management are singularly focused on you and your family's investments.

2) We are ensuring that your investments are properly prepared for whatever challenges this current situation will present over the coming weeks and months and we have sufficient corporate and personal financial resources to ensure that we are not distracted from making this happen.

3) All of our properties have low leverage, strong cash flows and favourable locations heading into this situation, maximizing their ability to survive this current situation better than properties based on speculation.

4) Both of America's leading political parties have set aside ideological differences to get money to consumers expeditiously and the world's major Central Banks have done the same to safeguard our financial system. One of the first places that this money will go is to pay for critical needs like food and rent. Knowing this and knowing more about our conservative approach to protecting investment assets gives us confidence we can weather this storm.

We would like to thank you for the trust you have placed in our relationship and we look forward to updating you about our private equity and hedge fund programs in the near future.

MacNicol & Associates Asset Management Inc.

March 23, 2020

130 Bloor St. West, Suite 905, Toronto, ON M5S 1N5
Tel: 416-367-3040 Toll free: 1-866-367-3040 Fax: 1-877-215-4044
Email: david.macnicol@macnicolasset.com URL: www.macnicolasset.com