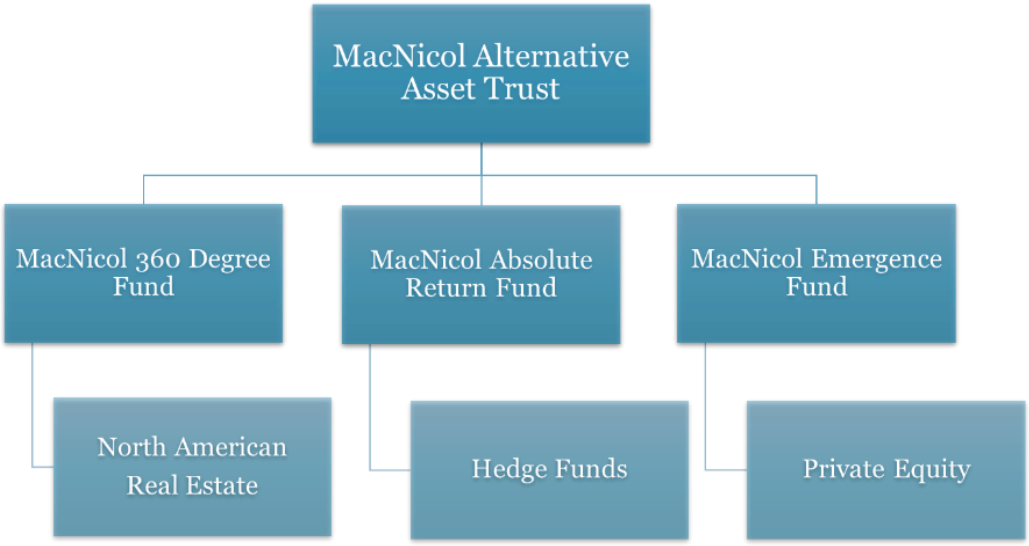
Alternative Asset Trust First Quarter Report: March 31st, 2020

The MacNicol Alternative Asset Trust is a multi-strategy, alternative investment platform designed to generate returns that are positive and uncorrelated with public stock or bond markets. The Trust, through its underlying limited partnerships invests in real estate, private equity and hedge funds. In total the Alternative Trust is invested in more than 150 separate real estate projects, private businesses and hedge funds. The advantages of our approach to alternative assets include effective diversification, enhanced liquidity and a less volatile return profile compared to the individual asset classes themselves.

Chart 1 – Investment Structure MacNicol Alternative Trust



Alternative Trust Update: The goals of the Alternative Trust are to generate positive real returns each year and annualized 5-year returns between 6%-8%. We are pleased to report that for the quarter ended March 31st, 2020 the Trust was higher by 6.0% with an annualized 7.5% rate of return for the 5-years to the end of March 31st, 2020.

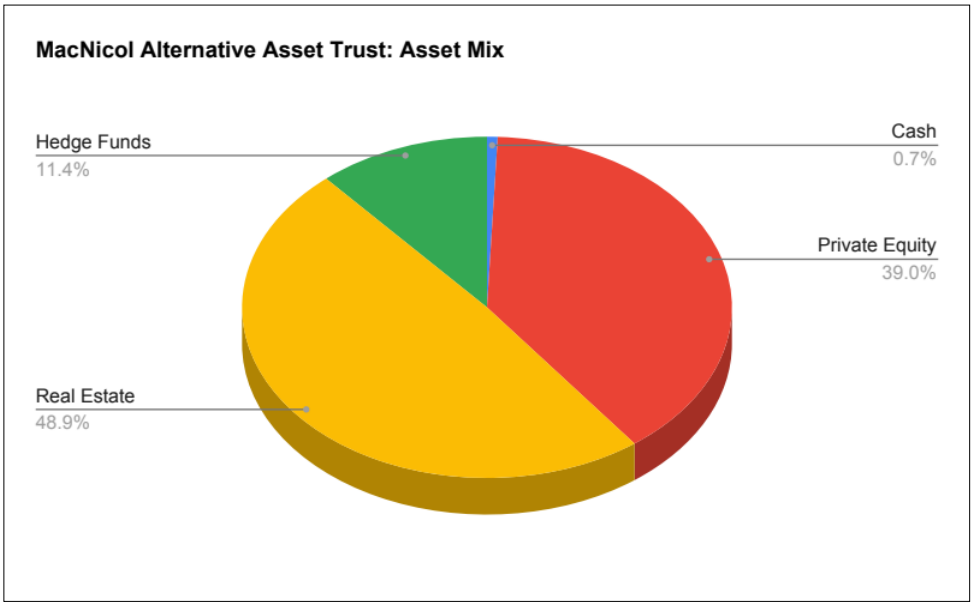
First Quarter 2020 Highlight:

When we sat down to write this report just 100 days ago, the world was truly a different place. A powerful rally in equities driven by rosy investor sentiment and injections of liquidity not only took our breadth away they made us question whether investing in real assets and real businesses was a valid investment strategy to pursue. At one point it appeared as though stocks would climb forever. The S&P500 Index was well into the 3,200 point level and it seemed the Dow Jones Industrial Average would hit 30,000 in a matter of weeks rather than years. Back in the world of alternative assets, institutional real estate, private equity and hedge funds plodded through life at a more measured pace, content in what it was doing yet at the same time envious of "high flying" public stock markets. Trillion became the new billion and CNBC interviews like the one pictured below were *daily* occurrences rather than the occasional construct of fringe investment strategists or delusional money managers: 100 days ago you were either bullish on stocks or your investors wondered what was the matter with you.

And then, seemingly out of thin air, markets collapsed hard and fast. COVID 19 was spreading, fast. Viral contagion infected thousands of people and financial contagion infected thousands of industries and businesses around the world. Economically sensitive industries like hotels, casinos, restaurants and small, nondescript retailers paid a steep price. Stores were closed, workers were sent home and billions of dollars of investor capital was erased. In less than 30 days, the entire economy just stopped.

Our work was only just beginning...

Chart 2 – Alternative Asset Trust Asset Mix March 31st, 2020



Alternative Asset Trust: First Quarter 2020 Highlights

During the first quarter of 2020 the Asset Mix of the Alternative Asset Trust was in line with that of previous quarters though with a (now) nearly 40% allocation to private equity. The Trust's cash weight fluctuated between nearly 6% during the middle of the quarter and the more recent weight of below 1%. Cash levels were defined primarily by distributions into the program from maturing investments, new client capital and new investments including follow-on investments that we had studied mainly in H2, 2019. The Trust benefitted from US dollar strength particularly in March when investors sought the US dollar's "safe haven" status and this helped to offset the intrinsic softness certain real estate holdings can experience during periods of flat or uncertain Net Operating Income growth. During the 1st quarter of 2020 the Trust was higher by 6% net of all fees and expenses and has provided investors with a 7.5% annualized return during the 5 years ended March 31st, 2020. While we remain very confident that the Trust will help better diversify client portfolios in 2020 and beyond, we have nevertheless begun a series of more detailed discussions with the people who oversee the daily operations of our real estate developments, privately companies and hedge funds to ensure we thoroughly understand how COVID 19 related distributions to labour markets and supply chains influence their short and long-term financial performance.

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 US Realty Income Fund. The 360 Fund focuses on value-added projects in the United States and Canada while also providing investment capital to residential and commercial mortgages providers though not directly through the alternative lender group known as Mortgage Investment Corporations or "MIC's". In total, the 360 Degree Fund holds over 100 real estate projects across 6 well defined product types. Chart 3 and 4 describe the fund's product mix and geographic exposure as of the end of March 2020.

Chart 3 – 360 Degree Fund Product Mix at March 31st, 2020

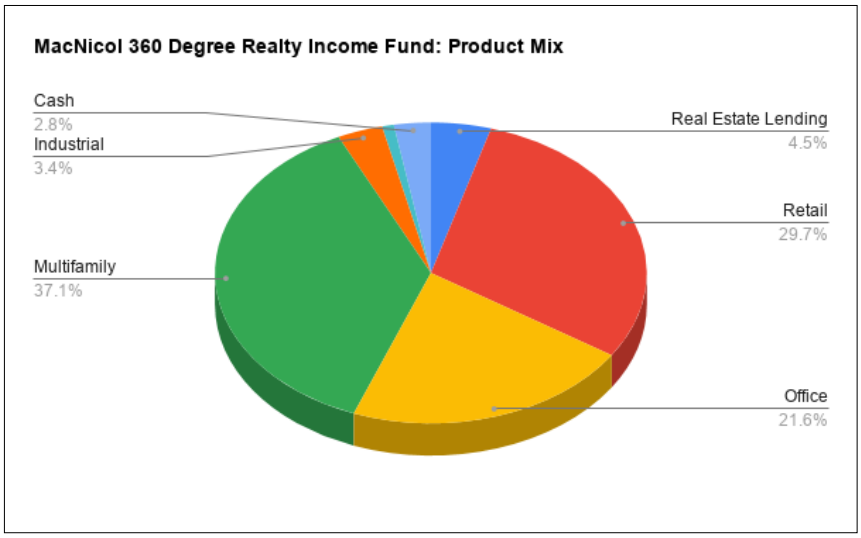
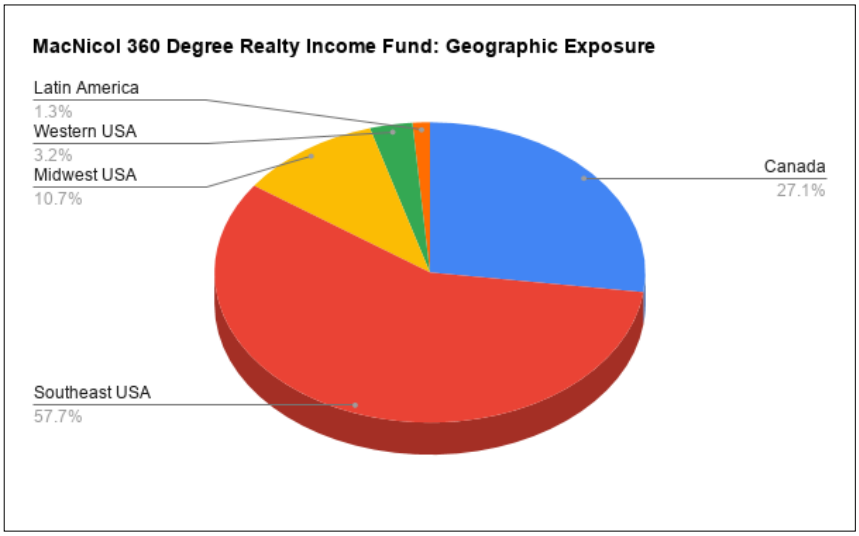


Chart 4 – 360 Degree Fund Geographic Exposure at March 31st, 2020



360 Fund Fourth Quarter: Highlights

For the 1st quarter of 2020, the fund was lower by 2.9% with the majority of the quarter's decline coming in March. As the quarter drew to an end, we were beginning to get a better sense of what the April rent roll cycle might look like and what hit vacancy rates may take in May given COVID 19 mandated lock downs. Mandated lockdowns are frankly quite new to us, but the Fund's tenants are not. The Fund essentially has three main sorts of tenants: those that live in their space either by necessity or choice, those that work in their space but who now must work remotely and those that can *only* operate if their space is open. It is primarily the last group who cannot pay their rent in April because they did not pay the rent in March. Very little if anything will change for this last group until they are able to open up again.

Commercial Real Estate: Quarantines and lockdowns have begun to take their toll. As of the time of this report, 88% of April rents have been collected. Thankfully our tenant base is larger than that of other funds and size matters when you are evaluating the performance of commercial leases. Leases to tenants below 5,000 square feet are underperforming with only 1/3rd of that group's tenants having made April's payment. 52% of the sub 5,000 square foot group deferred rent payments to a later date while 19% of April lease payments were simply not made without explanation. On the other hand, tenants between 5,000 and 25,000 square feet produced significantly better April payment performance with 70% having paid on time, 16% having opted to defer payment to a later date and less than 20% not making payment. Finally, leases to tenants that occupied areas of greater than 25,000 are performing well with a 92% having made April's payment on time with the rest opting to defer and none missing payment.

Multi-family Residential: Multifamily residential real estate is our favored real estate product type and though the current economic environment is pushing multifamily residential real estate quite hard, the responses has been favorable. For April, 93% of rents have been collected. Some requests for rent deferral have been reported however they are only marginally beyond the level we would otherwise experience in a normal economic environment.

Industrial: Our exposure to industrial real estate is primarily via large logistics terminals, transportation hubs and storage facilities. While COVID 19 related shutdowns have

impacted operations at some assets, April lease payments have been made, and we are unaware of any deferral requests at this time.

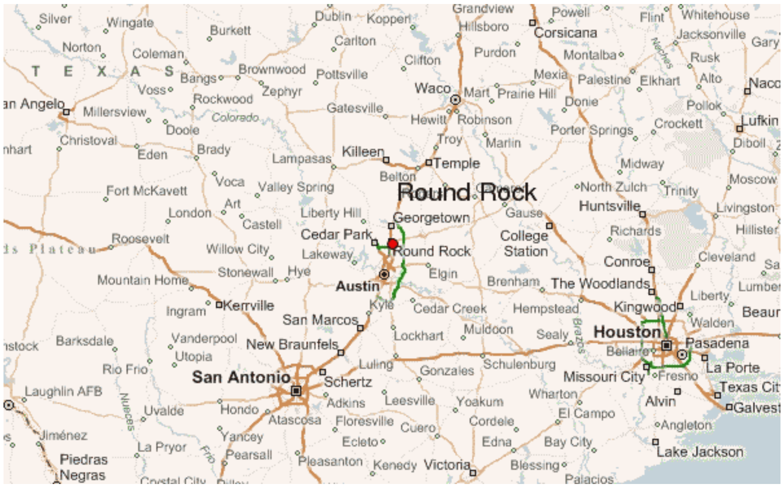
Office: For many of us, our current office environment is quite different from the one we are accustomed to. Boardrooms are replaced with living rooms and the Junior Analysts many of us have mulling around behind us have been replaced with animals or small children. Somehow, works appears to be getting done. One specific example, which even surprised me was Calgary. While mainly a US realty income fund (Table 3) the fund holds partnerships in certain Calgary office towers. Rent collection for those towers in April exceeded 92% and proved that proving that pockets of opportunity obviously exist in even the most unlikely of places.

Retail. While we made reference to our retail portfolio earlier by noting that tenant performance is directly related to the square footage (and thus tenant "status" for example Tiffany's versus a small family-owned jeweler) many tenants have already made painful cuts in order to stay relevant in an environment competing against point-and-click shopping and frozen by COVID 19. As stated last quarter, the first half of 2019 was slow for retail space absorption according to CoStar with tenants absorbing just 9 million square feet in newly formed retail space during the first half of 2019. To put this in perspective, this was half the pace of absorption experienced during the same time period in 2018 and one-third 2017's pace. We have not added to retail real estate directly in years. The "Amazonification" of everything was our main worry. Still, we do own retail real estate exposure through several of our "mixed used commercial" real estate limited partnerships.

Real Estate Portfolio: Activity

During the quarter the Fund completed work with a team in Texas to structure a new land banking partnership. This partnership works with builders to secure pre-approved and permitted land positions without upfront capital outlays. This structure allows builders to conserve capital for vertical development while allowing investors to capitalize on growth in a more secure way. For those investor not accustom to investing in Texas we draw your attention to the map inserted on the following page. According to the latest figures published by the Texas Workforce Commission, the **Austin-Round Rock** Metropolitan Statistical Area or "MSA" saw jobs increase from 1,099,900 to 1,136,600 in the 1-year period ended February 2020 and a net increase of 36,700 new jobs. Over the past five years, the job growth rate has increased at an average annual rate of 3.50%.

Austin-Round Rock along with Houston and San Antonio are key growth areas in the fund.



The fund also expanded its holdings with Miami Florida-based 13th Floor Investments. Florida Realty Estate Value Fund IV will focus on development work in the North Miami area including the Link at Douglas Station which we discussed in our recent real estate update note. Finally, the fund expanded its multifamily residential footprint in the Texas MSA of Fort Bend [Richmond] with the acquisition of Encore Grand Mission.

Like many of the multifamily residential assets in the fund, Encore Grand Mission is located in a growing county within Texas and has a low leverage ratio of 65% Loan-to-Value (LTV). Encore Grand Mission is situated south west of Austin and just 8 miles from Sugarland County in the "Texas Triangle" underpinned by strong fundamentals. Low inventory levels and low unemployment rates in Austin, San Antonio and DFW

[Dallas-Ft. Worth] confirm in our minds the health of these assets going into COVID 19 and so they should be able to better weather the storm than other opportunities.

FEBRUARY 2020	AUSTIN	SAN ANTONIO	DFW
TOTAL HOME SALES	2,524 (6.8% > 2018)	2,382 (8% > 2018)	7,126 (9.3% > 2018)
SINGLE-FAMILY MEDIAN SALES PRICE	$327,140 (12.8% > 2018)	$238,000 (6% > 2018)	$274,700 (6.89% > 2018)
SINGLE-FAMILY MONTHS INVENTORY	1.5 MONTHS	3.2 MONTHS	2.3 MONTHS
UNEMPLOYMENT RATE	2.6% (0.2 < 2018)	3.1% (0.2 < 2018)	3.2% (0.7 < 2018)

Real Estate: Closing Remarks

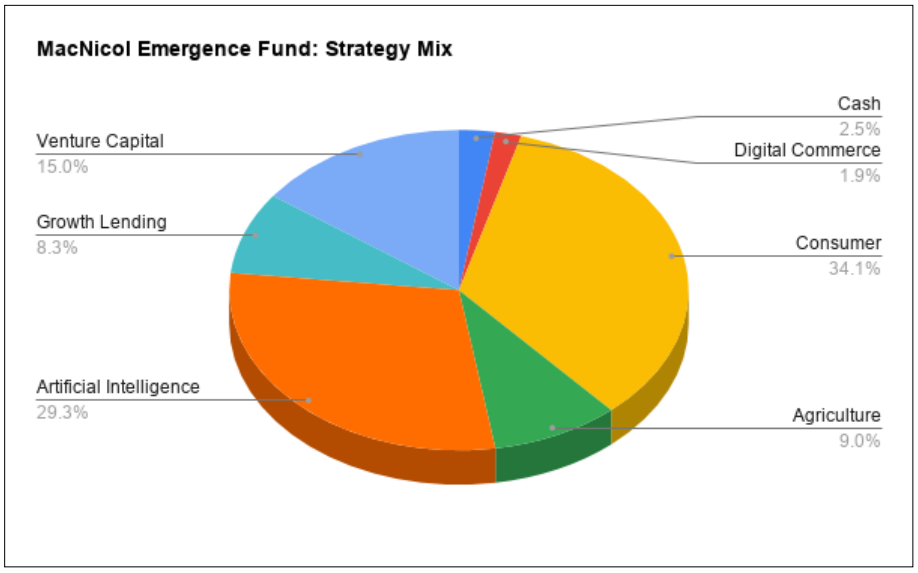
Although we are extremely confident in our real estate holdings, one must consider a world in which COVID 19 related lock downs last much longer than originally modeled by health professionals and lawmakers. Should lockdowns persist beyond June, rental arrears will increase as smaller retail and commercial tenants grow increasingly frustrated and desperate by not being able to operate their businesses. For larger office tenants, most of whom are operating digitally, arrears will not represent a material risk to our expectations of lease performance. It is also reasonable to expect vacancies to rise in Commercial Real Estate (CRE) and in general. In apartments, we expect people to double up by the middle of the summer if a clear indication of an economic “re-boot” is not underway. We also forecast students or unemployed new entrants to the work force returning home.

Large offices should remain stable but the small tenant component of office, as well as malls, will begin to experience significant pressure. Nevertheless, we view the increase in vacancy as largely temporary. At some point we will all have to go back to work. Employers, colleges and universities, immigration, trade and the economic machinery of our economy will all reopen. Remember, this too shall pass and until it does, your money is invested in a tremendously consistent real estate limited partnership with a team closely monitoring each and every development.

Private Equity: MacNicol Emergence Fund

Private equity is an alternative asset class comprised of capital that is not listed on public stock exchanges. Through direct ownership in private companies, equity co-investments in private companies and limited partnerships that hold several private companies, the Emergence Fund invests in a range of technology, data analytics and artificial intelligence and venture capital strategies and also lends to growing companies.

Chart 6 – Emergence Fund Strategy Mix, March 31st, 2020



Anchored in data analytics and artificial intelligence, and compliment by a range of consumer technologies, the fund also invests in venture capital and growth lending. During the first quarter of 2020 the fund was higher by 4.6% net of fees and expenses. The fund made a new investment during the quarter, which we describe in the fund's activity and though COVID 19 related disruptions to global supply chains were beginning to be evident, specific actions [which we will highlight in a moment] along with a favourable view on private equity generally eased our fears and supported the Fund's positive results. Hedge fund manager William Ackman recently purchased large quantities of private equity firm Blackstone Group.

This is perplexing because Ackman was also quoted on CNBC as having suggested that many privately held companies would go bankrupt as a result of COVID 19 related lock downs.

Private Equity Portfolio: Activity

As mentioned earlier, the fund initiated a new position during the quarter by taking a position in Flow Hydration, the maker of the popular Flow brand of premium waters. Flow's water is sourced from an artesian spring and then packaged in an environmentally friendly tetra pack. Even the cap on the tetra pack is biodegradable and comprised of vegetable matter. We were impressed by Flow's high revenue run rate, large EBITDA margin and (more recently) Flow's strong corporate citizenship. Flow recently donated $1 million to frontline healthcare providers in their battle against COVID 19.

The silver lining of COVID 19 stoppages is that Flow's revenues are climbing at a consistent rate due to grocery and drug store partners ordering more stock and selling more units. Retailers and Flow have worked on a direct supply chain model to maximize on-shelf inventory and increase off-shelve programs. On March 17th, 2020 Flow confirmed a 348 pallet order with Sprouts Markets (approximately 19 truckloads good for $800K of revenue) which shipped out almost immediately.

Flow often gets off-shelf placements in the summer but is beginning to see them earlier in 2020 due to the increased demand for premium domestic packaged water and COVID 19 related shortages. Importantly, the majority of Flow's supply chain is domestic and as such production supply needs are relatively unaffected. Flow currently has $12 million in inventory (worth $25 million in sales) – and they are confident that their raw materials and finished goods will be sufficient to hit projections. Flow is projecting over $4 million in revenue in March 2020 alone and will more than likely exceed second-quarter projections. New orders (in contrast to delivered shipments) in March 2020 are in excess of $1 million per week and a doubling is anticipated in the coming weeks if the demand is maintained.

Discussions with Private Equity Partners: Update

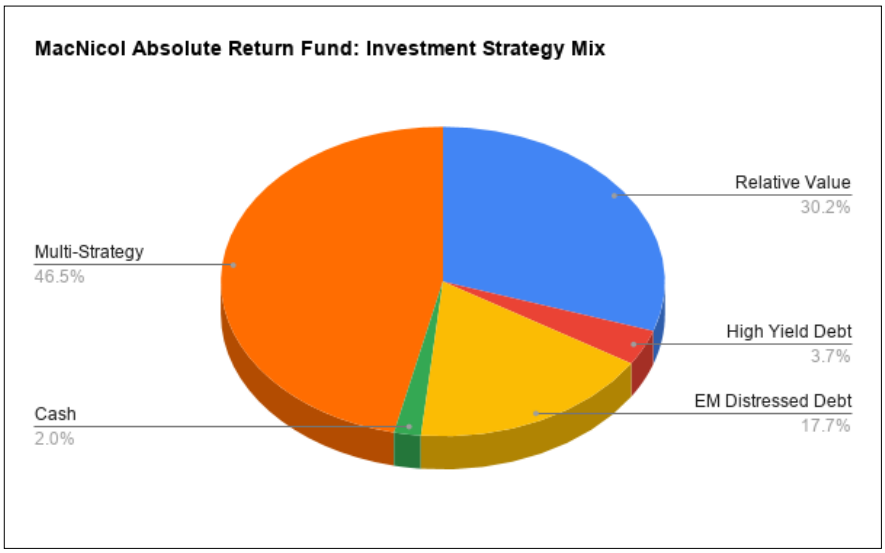
We spent several hours speaking with several of the private equity firms we work with in Canada and the United States to dig deeper into the health of the underlying portfolio companies. This exercise was helpful. Many of our partners in the United States are members of the Small Business Investors Alliance (SBIA) which has played a significant role in drafting proposed language for the Payroll Protection Plan (PPP) portion of the "CARES" Act. As such, these firms are privy to the development of the legislation and were able to advocate on behalf of suppliers and users of investment capital. In some cases, our partners have begun working with each portfolio company's Commercial Bank to advise them of the intent to apply for the PPP 7(a) loan program and develop the data and case required to ensure the companies each qualified well before the legislation was passed on March 27, 2020. At the time of this report, 81% of the PPP 7(a) loan applications have been approved. Under the regulations associated with the PPP 7(a) program the loans will be forgiven in full or part if the company does not layoff staff in the eight weeks leading up to June 30. These funds will be critical to the portfolio companies as almost all will experience some form of business interruption, slowness, or delayed new business contracts. Additionally, our private equity partners have communicated to us that they have been very active in stress testing each company's operating model and requiring prudent cost containment measures to ensure solvency should lockdowns continue. In early March, Partners began stress testing individual portfolio company operating plans for the 2020 fiscal year. Through these tests, updated forecasts some of which get revised intra-weekly help guide our modeling of financial performance, so that we can communicate to our investors a more thorough monthly Net Asset Value. Though difficult to contemplate our Partners have also developed "worst case scenario" models to stress test the profit and cash flow plans for each company through year end to understand what cost reduction decisions would need to be made, and at what intervals, based on specific possible negative impacts ("triggers") to help ensure each company maintains and preserves a sufficient cash buffer to manage through the period. As this report is sent to you certain of the companies in the portfolio are experiencing revenue shortfalls which are expected to continue for several months, while the majority have not seen significant revenue impact in March results, late May data may be more telling. Fortunately, a number of companies have seen only limited impact and are experiencing slowed sales & marketing performance as prospects delay decisions on new contracts.

The majority of the companies have made proactive cost containments/reductions including hiring freezes, staff furloughs or reduced operating hours, executive pay reductions, and terminations/reductions in force. We expect the PPP 7(a) loans, coupled with the cost control measures taken, is likely to see even the most effected companies through the period, perhaps not with the originally expected growth, but intact throughout 2020. The MacNicol Team is impressed with the level and extent to which our private equity partners have been proactive with the portfolio and management teams updating stress test scenario plans on a near daily basis fill us with confidence knowing that your investments are being safeguarded in this difficult environment. We are cautiously optimistic about the enhanced organic growth opportunities our companies may enjoy coming out of this crisis period as they could be in better shape than some of their peers. Opportunities for acquisition also encourage us to think well beyond a world shackled by COVID 19. And as we mentioned earlier, some companies such as Flow Hydration have capitalized on bringing to market their products despite a world besieged by COVID 19.

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 1st quarter of 2020 the fund was essentially flat and balanced strength in many Equity Long/Short Managers who correctly timed volatility in equity markets with weakness in emerging market distressed debt markets.

Chart 7 – Absolute Return Fund Investment Strategy Mix, March 31st, 2020



In assessing the hedge fund positions, we believe that more economically sensitive areas such as distressed debt could be weaker for the foreseeable future. At the same time, distressed debt can produce higher returns once economic uncertainty has subsided. Distressed debt involves buying $100 bonds for only $20 and often much less. Still we believe the short-term prospects for distressed debt remain volatile. Fortunately, a balanced approach in the rest of the fund will help to mitigate matters on the inside while accommodative monetary policy will at some point stimulate investors to further up the risk spectrum into higher yield and even badly bruised credits.

Closing Comments

100 days ago, developed stock markets took our breadth away and made us question the validity of investing in alternatives. COVID 19 has caused to look at our portfolio of alternatives assets much more closely and considering all that has happened we like what we see. In a recent risk analysis assessment our team determined that on a scale of 1 to 3 our alternative holdings scored a 2.75. Though a protracted recession will hurt many families and businesses, we are confident in our alternative asset program's positioning and holdings, and firmly believe that it will ride out the storm. With all the doom and gloom sweeping through the financial news media and the media in general it is important to remember that the MacNicol Alternative Asset Trust and MacNicol & Associates Asset Management have a lot to be happy with. Our real estate holdings are generally high in quality, low in debt and tenanted with people in knowledge-based industries. Many of the privately held firms we own or are partnered with focus on data analytics and artificial intelligence, two industries that don't usually have a fixed location. Our hedge fund program contains a carefully constructed mixture of some of the most innovative people in the world of finance. Together, the Trust's three key asset classes will work together as they always have to enhance the integrity of your portfolio today and tomorrow. Perhaps even more importantly is that our firm is stable, well positioned and able to help. We recently made a donation to Sunnybrook Health Sciences Centre to help support the clinicians and researchers who strive to provide patients with the most advanced treatments and very best possible care. During this challenging time for markets, the economy and people, the MacNicol Team would like to send our well wishes to you and your family and to thank you for your Trust in what we do for you.

MacNicol & Associates Asset Management Inc.