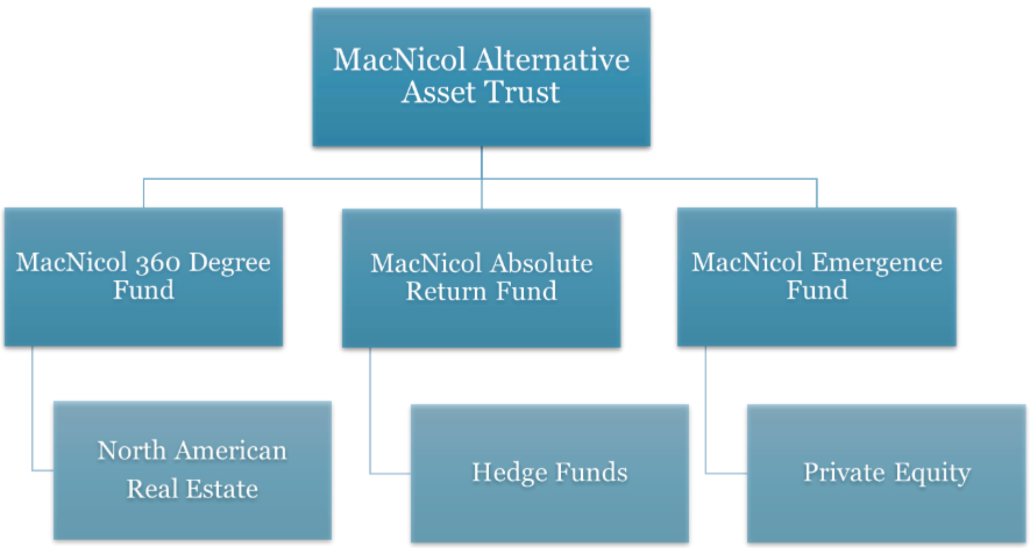
Alternative Asset Trust First Quarter Report: June 30th, 2020

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 June 30th, 2020 the Trust was higher by 0.5% with an annualized 9.7% rate of return since inception to the end of June 30th, 2020.

Second Quarter 2020 Highlight:

Long-Term Capital Management[1], the Dot.com bubble, SARS, the global financial crisis, the Eurozone Sovereign Debt Crisis, Brexit and a good number of squabbles over debt ceilings, defaults, bank solvency and populist governments are the punctuation marks that define the last 22 years in financial markets. Each debacle served up a crescendo actual or perceived existential threats and once-in-a-lifetime opportunities to investors. But not even battled hardened investment warriors like my senior partners David MacNicol and Ross Healy could have imagined the vicious beating coronavirus would unleash on corporate profits, employment and economic prosperity as a whole as it cascaded across the globe.

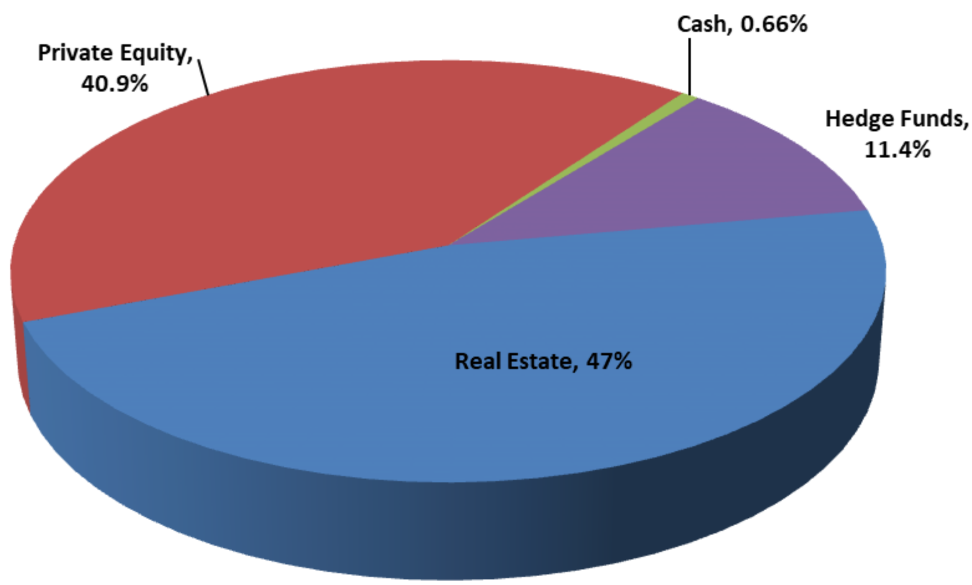
MARKET	MTH-END 2020-06-30	MTH-END 2020-05-29	QTR-END 2020-03-31	YEAR-END 2019	CHG THIS MONTH	CHG THIS QUARTER	CHG IN 2020
EQUITY MARKET							
CANADA							
S&P/TSX COMPOSITE	15515	15193	13379	17063	2.1%	16.0%	-9.1%
S&P/TSX TOTAL RETURN INDEX	55943	54598	47826	60460	2.5%	17.0%	-7.5%
S&P/TSX 60	934	917	820	1015	1.9%	13.9%	-8.0%
S&P/TSX COMPLETION	912	883	731	1049	3.2%	24.7%	-13.1%
S&P/TSX SMALLCAP	503	478	365	595	5.3%	37.7%	-15.5%
S&P/TSX VENTURE	620	554	390	578	12.0%	58.8%	7.4%
UNITED STATES							
S&P 500	3100	3044	2585	3231	1.8%	20.0%	-4.0%
S&P 500 TOTAL RETURN INDEX	6352	6228	5269	6554	2.0%	20.5%	-3.1%
S&P 1500	704	691	585	741	1.8%	20.2%	-5.0%
DOW JONES INDUSTRIALS	25813	25383	21917	28538	1.7%	17.8%	-9.6%
NASDAQ	10059	9490	7700	8973	6.0%	30.6%	12.1%
RUSSEL 2000	1441	1394	1153	1668	3.4%	25.0%	-13.6%
INTERNATIONAL							
FTSE 100 (UNITED KINGDOM)	6170	6077	5672	7542	1.5%	8.8%	-18.2%
CAC 40 (FRANCE)	4936	4695	4396	5978	5.1%	12.3%	-17.4%
DAX 30 (GERMANY)	12311	11587	9936	13249	6.2%	23.9%	-7.1%
NIKKEI 225 (JAPAN)	22288	21878	18917	23657	1.9%	17.8%	-5.8%
SHANGHAI SE A SHARE (CHINA)	3128	2990	2882	3196	4.6%	8.5%	-2.1%
MSCI EMERGING MARKETS	57480	54104	49578	61467	6.2%	15.9%	-6.5%
MSCI EAFE	1781	1725	1560	2037	3.2%	14.2%	-12.6%
MSCI WORLD	1688	1651	1431	1800	2.2%	17.9%	-6.2%

[On March 23rd, 2020 the mere suggestion that markets from Asia to Zimbabwe would stage an impressive rebound would have resulted in one's termination from a good number of GoToMeeting/ZOOM/SnapChat meetings or webinars.]

Then, seemingly out of nowhere, on March 23rd, 2020, investors decided that enough-was enough and the buying began *in earnest*. Though a good number of markets around the world are still in the red, the second quarter of 2020 can best be described by one word: rebound. Impressive in its own right the rally in the stock market did not impact life for the Alternative Asset Trust in a material way. Weekly update calls with our partners in the real estate and private equity space consumed much of our time but came with the satisfaction of seeing just how orderly alternative assets can be. You prioritize quality first, and second…

[1] A gigantic Hedge Fund that despite being staffed by throngs of Ph.D's and overseen by two Nobel Prize winning Economists who pioneered new techniques for valuing derivatives, imploded when Russia defaulted on its debt obligations.

Chart 2 – Alternative Asset Trust Asset Mix June 30th, 2020



Alternative Asset Trust: Second Quarter 2020 Highlights

The Trust's asset mix which is shown in Chart 2 was generally in line with previous quarters. Cash levels were defined primarily by distributions into the program from maturing investments, new client capital and new investments that the trust made during the quarter. The Trust finished the quarter with 65% of its assets denominated in US dollars, which was a tailwind in the late stages of Q1, 2020. On the other hand, beginning on March 22nd, 2020 and continuing throughout the second quarter, the US $ weakened as currency investors began allocating monies to risk assets like stocks, particularly with a focus on Europe and Asia.

From the perspective of liquidity, more than half of the trust's assets are on pace to mature within a 3-4 year window, with near term liquidity [90 days or less] defined as 12.12% of overall assets at quarter end.

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 150 real estate projects across 6 well defined product types described in Chart 3 and further expanded upon in Chart 4.

Chart 3 – 360 Degree Fund Product Type at June 30th, 2020

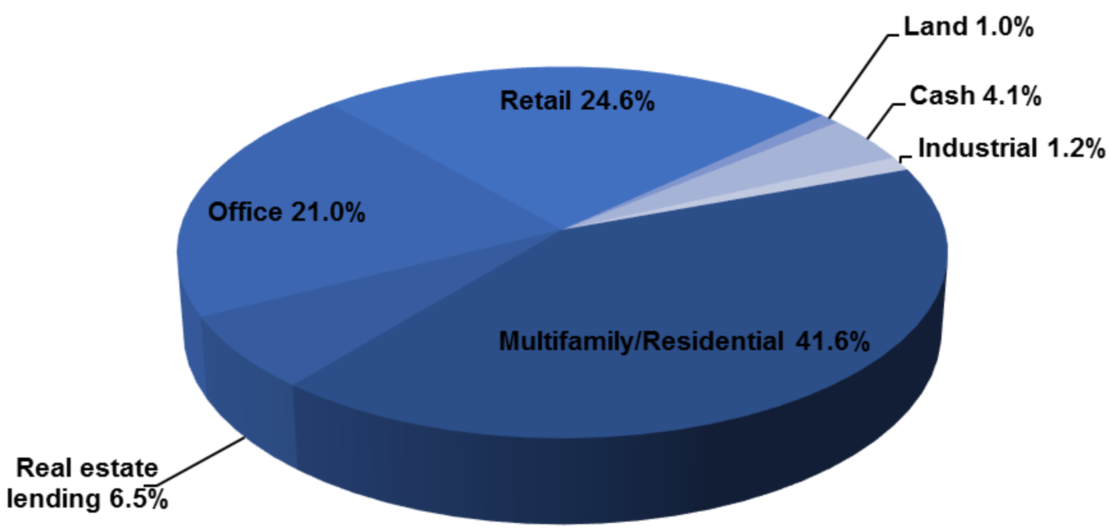
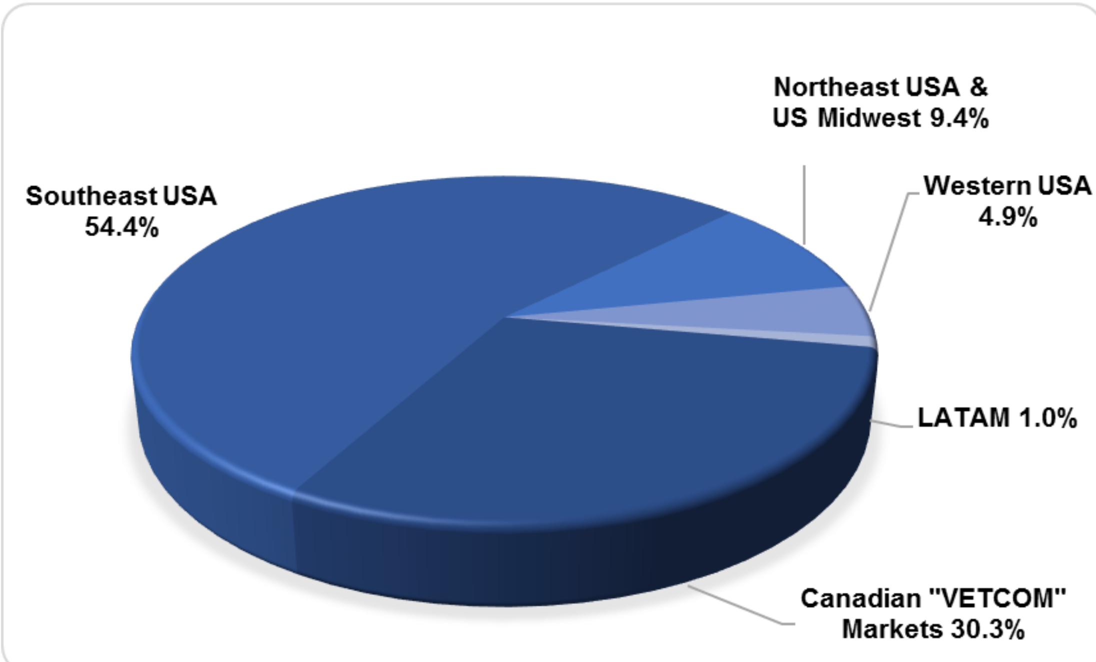


Chart 4 – 360 Degree Fund Geographic Exposure at June 30th, 2020



VETCOM part of Canada which includes Vancouver, Edmonton, Toronto, Calgary, Ottawa and Montreal

360 Fund Fourth Quarter: Highlights

For the 2nd quarter of 2020, the fund was higher by 3.4% in local currency terms and off by 30 basis points in Canadian dollar terms. As a reminder the fund reports in US dollars and has a bias towards US growth markets resulting in only a 1/3rd tilt to Canadian "VETCOM" markets per Chart 4. The Fund continued to frame its tenants as either those that live in their space either by necessity or choice, those that work in their space but who now must work remotely or 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. Little if anything will change for this last group until they are able to open up again and though openings are occurring; many outlets are operating below capacity for safety reasons. Fortunately, as we commented in our firm-wide quarterly investment commentary, debt capital markets showed signs of life in May and June and opportunistic investors such as hedge funds provided badly needed capital to lower credit quality tranches of the CMBS (Commercial Mortgage-Backed Securities) space.

Lastly, though somewhat over touted by the financial news media, actions on the part of the US Federal Reserve (in particular the purchasing of corporate bonds and/or corporate bond ETFs) have functioned to lower spreads across a variety of CMBS quality tranches and – at the very least – stabilize the market to the point where investors such as hedge funds have the confidence to proceed. Though too early to be conclusive, we believe that Commercial Real Estate bottomed in mid-May. Unfortunately, much has yet to be determined in the space, we are thankful for the sterling quality of many of our assets which have held up remarkably well during this exceptionally challenging time and for the stellar people running them at the ground level.

Commercial Real Estate (CRE): We dove deeply into the CMBS market about a month ago and meticulously studied the financial arm of commercial real estate: the debt capital markets. A couple of key insights were gleamed from that study. We term these insights the good, the bad and the ugly but we present them to you in reverse order.

First, the ugly: CMBS activity [i.e. the actual securitization of loans into investment pools that asset managers, hedge funds and insurance companies purchase] literally stopped in April. In no uncertain terms this action effectively “took the rug out from under” many CRE projects. Next, the bad: default rates on the loans packaged within CMBS securities [which are basically bonds] is now on par with that observed during the global financial crisis and there is just no getting around this. Finally, the good news: CMBS securitizations re-started in May and June, and the securities created were sold to investors. Hedge Funds essentially doubled down on the lower graded BBB tranches of CMBS securities providing a valuable life line to CRE investors and lenders at preciously the time when asset managers and insurance companies were on the sidelines in the BBB space. Concomitant with a rotation out of the lower graded BBB CMBS tranches, we observed capital from said asset manager and insurance companies flow into many of the A rated categories. We breathed a sigh of relief when following our study of market-based indicators of CRE performance from the debt capital markets and synthesized the following hypothesis: there will likely be a wider range of return profiles in the CMBS market from here on out. Some intrepid hedge funds and Wall Street “wizards” will be richly rewarded for the huge risks they are taking, and we full expect to hear equal numbers of stories about hedge funds imploding from and cashing in on the more

fractured CMBS market. Ultimately, as is usually the case in real estate, quality will be rewarded. What does quality mean to us in a CRE context?

In precious years it was all about location, location, location…we believe the CRE space must now balance location with form and function. We think the premium assets to hold in CRE lie just outside of major urban centers and feature adaptable high-tech spaces rather than the cache of a ritzy address.

Multi-family Residential: Multifamily residential real estate has long been our preferred real estate product type. Multifamily residential real estate is an investment that our clients understand, so there is the ability to establish immediate comfort, while also being easy to model from a Portfolio Management perspective. When we use the term “model” what we mean is that our group can assess data related to multifamily residential complex investments with a high degree of precision and identify and challenge sponsor entities on their assumptions into a given project’s outlook. Unfortunately, COVID 19 caused certain grades of multifamily residential real estate to decline, especially Class C apartments. Thankfully, and through no unique insight or clairvoyance of our own, the fund’s overall multifamily residential grading would be about an A minus. While we do own a couple of apartment complexes in Southern Ontario that are underperforming [meaning May rent rolls dropped below the 80% level] the majority of our holdings are in line with their long-term rent roll track records where-by only 5-7% of rents for May are problematic. We note also that a portion of the 5-7% includes what we call “frictional” rent slippage that relates more to tenant transitions that are part of the normal ebb and flow of residential real estate. Two notable/sizable outliers in residential real estate include partnerships we hold through the Carroll Organization and Venterra Realty. It is hard to put into word just how important it is to have seasoned management at the helm of every real estate transaction. Delegation of authority is our course completely understandable in any business, but we have come to greatly appreciate working with people who are “career” real estate people as they understand not just their target market but their target investor base. The assets we own through the Carroll Organization and Venterra Realty are fully tenanted with occupancies of 90% plus and featured June rent rolls in which an average of 94% of rents were collected. Moreover, the steps to which both groups have gone to inform us of happenings at the ground level are truly impressive given that each group themselves would have had to have gone through the challenging process of mobilizing and equipping their own staff to work remotely. With that said, time is of the essence. We know, from the detailed reporting cited just a moment ago, our multifamily assets remain well capitalized. Venterra Realty, for

example, recently began providing us with something they term a "Worst Case Scenario" ratio.

The worst-case scenario ratio basically takes the amount of cash currently held on the partnerships balance sheet and divides it by the monthly total expenses required to maintain control of the asset – under the assumption of zero dollars in rent collected. You will appreciate how pleased I was to learn that the assets we hold through Venterra could potentially go 8 full months without collecting a single cent of rent before creating significant stress on the partnership. And once more for clarity, these are assets that are on average 90% occupied and in which 90-94% of leases are performing. Still, as we just said, time is of the essence. With more and more US states re-opening their economies we fully expect a rise in new COVID 19 cases and – as a result – the resumption of previously lifted restrictions on travel, leisure and commerce. Taken together these factors represent significant risks to all real estate assets [multifamily included] and so it is of the utmost importance to carefully review how properties are unwritten. We cannot overemphasize how much time we have spent obsessing over underwriting assumptions in the dozens of real estate projects we have reviewed in the past quarter and the very small handful of projects we have supported in the past quarter.

Industrial: While nothing is ever truly "easy" in life and investing, the one (lone) "easy" lay up in the real estate world has to be industrial assets that focus on technological innovation and distribution of commercial goods through the virtual economy. We began commenting on these types of assets 3 years ago and were amazed as to how clearly one could see the "Amazonification" of commerce play itself out in the world of 150,000 square foot distribution terminals.

Office: Perhaps not *more* than any other real estate product type but as much as any other real estate product type, office as a whole is exposed to the sobering reality that its moment in the sun has passed. Right now, we find it extremely hard to believe that throngs of CEOs and CFOs aren't [seriously] looking at the lease composition of their businesses. Next to employee salaries, for many firms, office space is there single highest expense line item.

Retail. Apex Parks, Brooks Brothers, Cirque de Soleil, Dean & Deluca, GNC, Golds Gym, J. Crew, JC Penny, Hertz, Neiman Marcus…the list of retail bankruptcies includes much more than little know family-owned businesses. Brooks Brothers has been in the

clothing business for longer than the University of Toronto has been in the degree granting business. And as a bonafide "gear head" knew that Hertz was having to part ways with [the equivalent] of two football fields worth of Chevrolet Corvette sports cars.

There is no easy way to say this, but retail was mauled by COVID 19. We wonder just how many more outlets fold in the coming months. If Brooks Brothers was only able to pay creditors for a few months, then it doesn't exactly speak to a high margin business flush with cash.

Real Estate Portfolio: Activity

During the quarter the Fund exited the Fresenius distribution center in Knoxville, Tennessee through a partnership we own in Miami Florida. The Fresenius Distribution Center is a 614,000 SF build-to-suit facility that was designed and developed solely for Fresenius Medical Care (NYSE: FMS), the world's largest dialysis company. The $46 million facility was built to accommodate the growing demand for home-dialysis equipment. Given partner's past relationship with the company they were selected to build the facility which was completed on time and on budget. Shortly after breaking ground in 2019 the building entered into a forward sale with WP Carey (NYSE: WPC) to total considerations of $66 million. The $20 million profit represented a 285-basis point spread, 25% of which was shared with the tenant as an incentive rebate.

[The Fresenius centre wasn't always a 600,000+ square foot facility…at one point is was simply some dirt with a sign on it.]

The fund also benefitted from continued closings at Manor Parc in Tamarac, Florida. To date 234 of 239 homes at Manor Parc have closed with the 5 additional homes now under purchase agreements that are expected to close in Q3, 2020.

[Manor Parc is located in Tamarac Florida, a suburb of Ft. Lauderdale. With beautiful homes like this showcase model and a 30 minute drive to Miami, the Manor Parc development has performed well.]

Real Estate: Closing Remarks

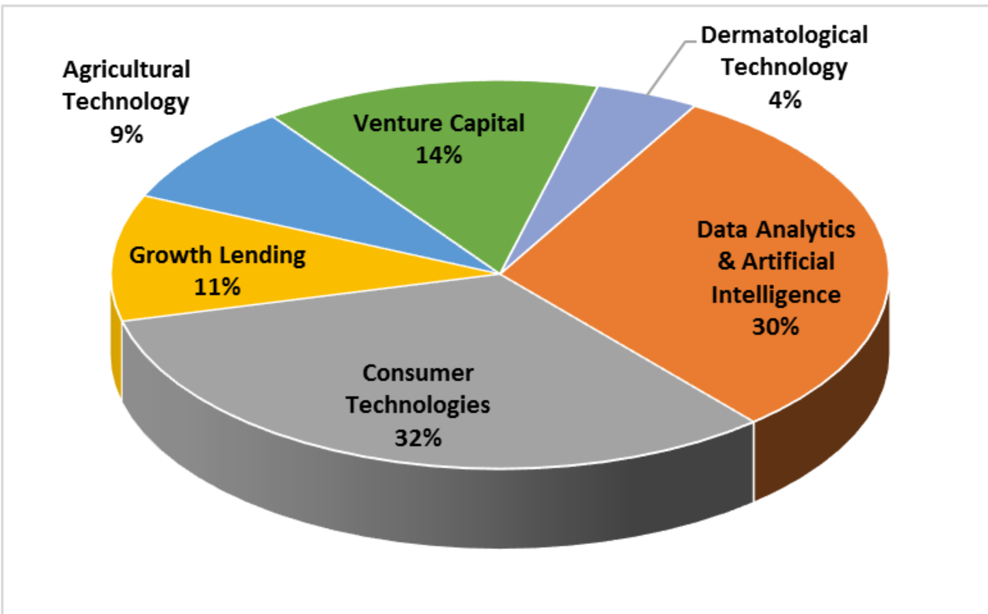
Much like in the last quarter when we stated that we were extremely confident in our real estate holdings we maintain that view today. Nevertheless, as becomes more the norm, one must consider a world in which COVID 19 related lock downs last longer than originally forecast and are met with an economic grand re-opening that isn't so grand.

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 that are detailed from a sectoral perspective in Chart 6.

Chart 6 – Emergence Fund Sector Allocation, June 30th, 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 second quarter of 2020 the fund was higher by 1.5% as strength in consumer technology, data analytics and artificial intelligence and venture capital was offset by weakness in growth lending and agricultural technology.

Private Equity Portfolio: Activity

During the quarter, the fund acted as an equity co-investor in assisting Learn Well a portfolio company held through a partnership with its acquisition of Comprehensive Counseling. Comprehensive Counseling is based in Rego Park, NY and provides clinical treatment through psychotherapy and counseling to children and adults with mental health needs. Comprehensive Counseling provides mental health counseling services to patients in the New York metro area. The company has a staff of roughly 90 clinicians who provide treatment and work with the company on a 1099 contractor basis. A 1099 contractor is a person who works independently rather than for an employer. Comprehensive Counseling maintains eight office locations in the New York metro area but has since transitioned so that 100% of counseling hours are being delivered telephonically or via video call.

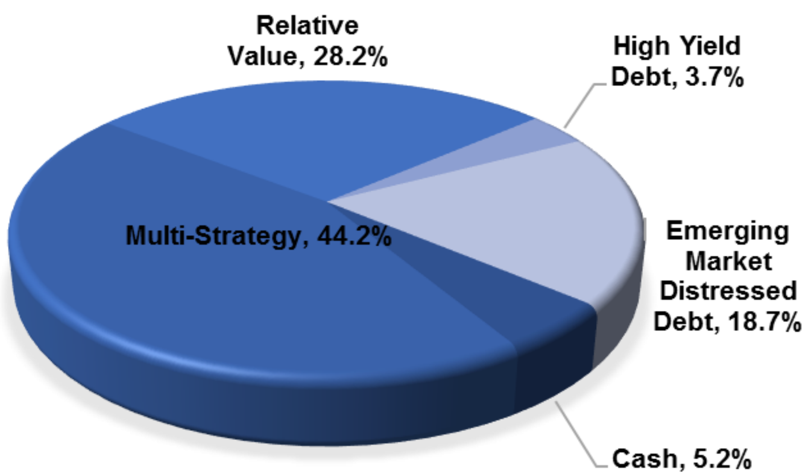
In addition to providing the physical office space to see patients, Comprehensive Counseling also provides administrative services to the clinicians, including billing and collecting from payors, scheduling of appointments, credentialing, record storage, and clerical tasks. In exchange for the rooms and administrative services, the mental health clinicians typically share on average 50% of the revenue with CCS. Many of these clinicians have full-time jobs at schools and hospitals and utilize Comprehensive Counseling as a platform to earn supplemental income. The company provides a unique opportunity to the therapists who otherwise would not be able to cost-effectively set up their own practice or see patients outside of normal hours. This model is attractive to LearnWell as the liability for services rendered resides with the clinician, and utilization of clinical staff is always 100%. At its core, Comprehensive Counseling acts as a match-making organization, matching clinicians with patients and providing administrative services to facilitate the therapy session.

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 second 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. During the second quarter of 2020 the absolute return fund was higher by 20 basis points proving that you won't have much ground to make up when you don't lose ground in the first place.

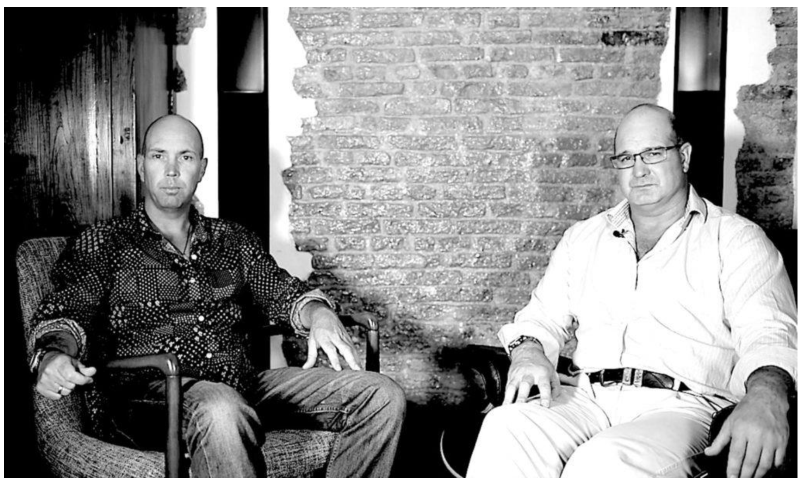
Chart 7 – Absolute Return Fund Investment Strategy Mix, June 30th, 2020



Absolute Return Fund: Activity

In terms of activity during the quarter, the fund began a new relationship with Managers Chris MacIntosh and Bradley McFadden of Glenorchy Capital who search financial markets globally for extreme deep value situations where asymmetric payoffs are likely to be achieved – often in markets that few know about or would dare to tread. The pair also pens the widely followed Capitalist Exploits blog.

CAPITALIST EXPLOITS



[Chris MacIntosh and Bradley McFadden not only pen impressive market letters, they know a thing or two about deep value opportunities.]

Closing Comments

In the roughly 100 days that passed since March 23rd, 2020 we were flabbergasted by how strongly markets have rebounded even when factoring in the large pools of cheap money that were on offer from fiscal and monetary policy makers. At times many of these bailouts made it into the right hands but sometimes they made their way into companies whose valuations we would question. Nikola Transportation, a Phoenix, AZ based integrated maker of zero emissions transportation systems [transport trucks that run on hydrogen] is a great concept but we question whether Nikola will go on to challenge industry titans like Mercedes-Benz, Volvo and Freightliner. Clearly, the stock market disagrees with us and has awarded Nikola a $19 billion valuation. In other instances, so much money has piled into just a small handful of “tech titans” that entire indices are now dominated by the movements of just a few stocks.

Most importantly of all we wish you, your family and those important to you all the best in this tempting time of beautiful weather and need to see people. Please *continue* to exercise caution, vigilance and prudence in your daily lives as we will do in the Alternative Asset Trust.

MacNicol & Associates Asset Management Inc.
July 2020