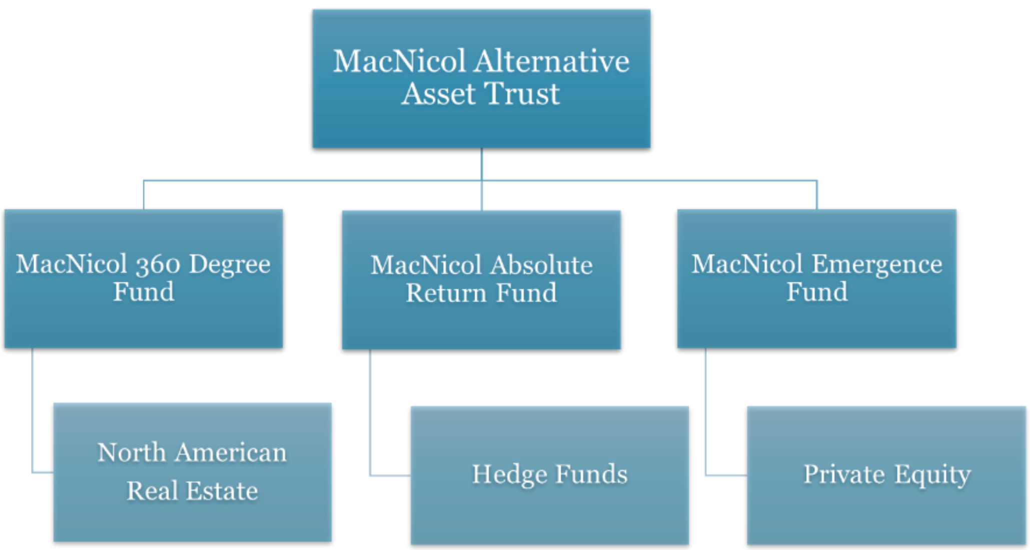
Alternative Asset Trust 3rd Quarter Report: September 30th, 2020

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

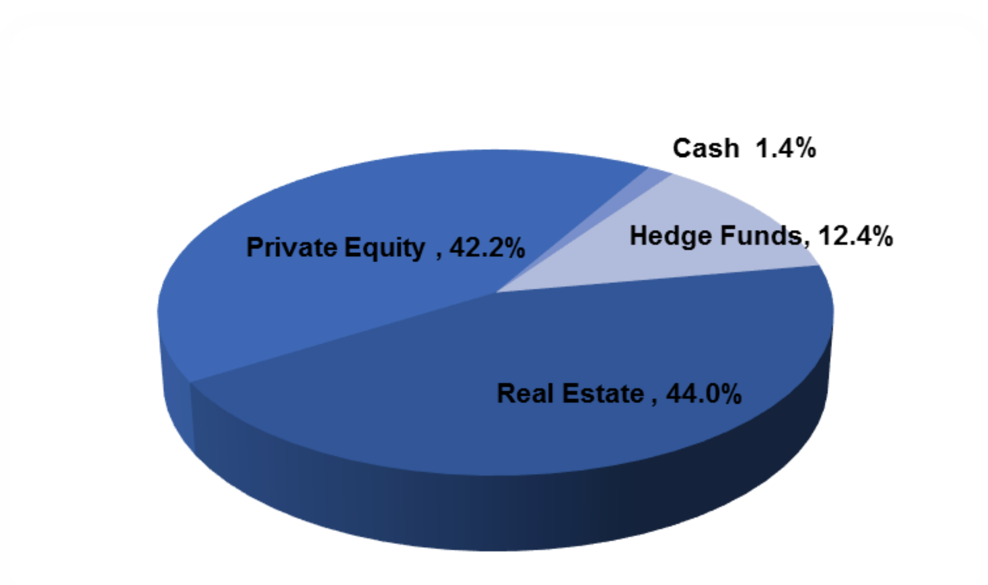


Alternative Trust Update: The goals of the Alternative Trust are to generate positive real returns each year and help better diversify portfolios of conventional investment assets. We are pleased to report that for the quarter ended September 30th, 2020 the Trust was higher by over 1% with an annualized 9.7% rate of return since inception to the end of September 30th, 2020.

3rd Quarter 2020 Highlight:

The 3rd quarter of 2020 was defined by an investment climate less reluctant to accept the reality of a COVID world and more acutely focused on the upcoming US federal election. An added, and worrying, development during the third quarter was the number of Americans [and Canadians] joining the ranks of the permanently unemployed. Many market participants and observers were left pondering whether the "low hanging fruit" in the labor market had been picked and whether further gains in employment may take *years* to materialize – ourselves included. As the euphoria of rapid, near-term job gains became gradually offset by a growing list of workers who might never be heading back, the emergent economic question became what impact could a wider and potentially longer lasting injury to labor markets have on federal deficits - themselves viewed as outrageously high for several *years* now? To some, like hedge fund titan Leon Cooperman, the impact is thought to be severe: Cooperman [a billionaire] raised eyebrows in the investment community by purchasing gold late in the 3rd quarter for the first time ever. To others, like US Federal Reserve Chair, Jerome Powell, the risk of too much stimulus is dwarfed by the risk of not quite enough stimulus: comments which on their own can add billions of dollars in market capitalization to already questionably valued stocks. As always, the MacNicol Investment Team followed its time-tested safe harbour approach to investing resulting in more reliable albeit more moderate returns.

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



Alternative Asset Trust: 3rd Quarter 2020 Overview:

When compared to the trust's asset mix at the end of the second quarter of 2020, the third quarter's mix described in Chart 2 showed a higher allocation to cash and private equity holdings with real estate and hedge funds largely unchanged. Cash levels rose mainly due to capital being returned to the program by elder vintage investments while not being "called" to newer investments at the same pace due to COVID and the "wait and see" approach taken by many private equity fund managers. In terms of currency exposure, the trust concluded the third quarter with 65% of its holdings denominated in US dollars and 35% in Canadian dollars - nearly a carbon copy of the previous quarter. Although currency movements were more volatile in the second quarter, the Canadian dollar gained additional ground on the US dollar during the third quarter, rising by approximately two cents. With respect to liquidity, 49% of the trust's assets are expected to conclude their investment cycle within the next 3-years which suggests that the pace at which capital is returned to the trust will increase and potentially supersede the rate at which our team is willing to allocate capital to new investments resulting in the potential for higher cash balances during the first half of 2021.

Very importantly, the Trust turned 10 years old on October 6th, 2020 and we will soon report to you the program's 120th consecutive valuation report. In so doing, we hope that this will confirm that carefully selected and methodically constructed portfolios of alternative assets can [and do] help investors achieve attractive risk-adjusted rates of return in both the short-term and the long-term. Of even greater importance is our thanks and gratitude to our valued investors from across Canada and the United States.

Your trust means more to this Trust than you will ever know.

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 Mix - September 30th, 2020

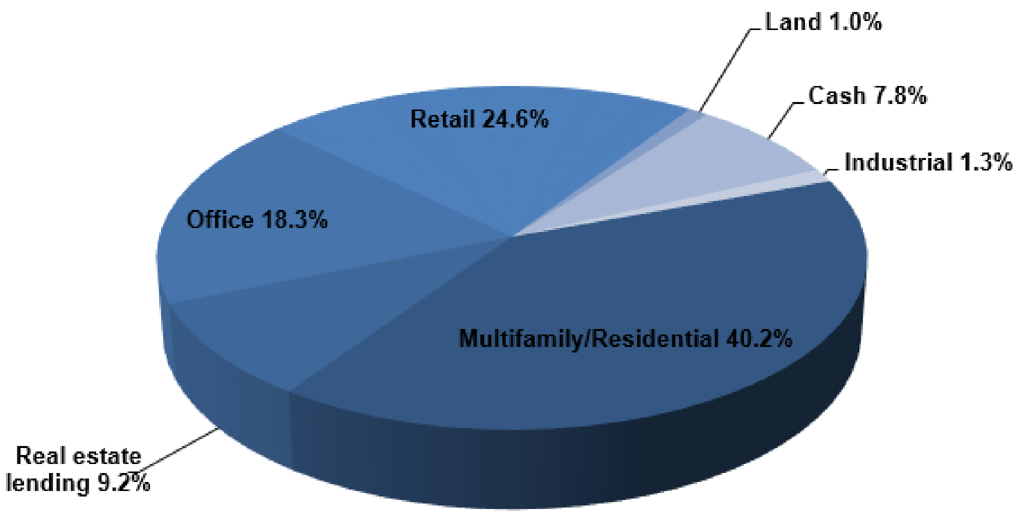
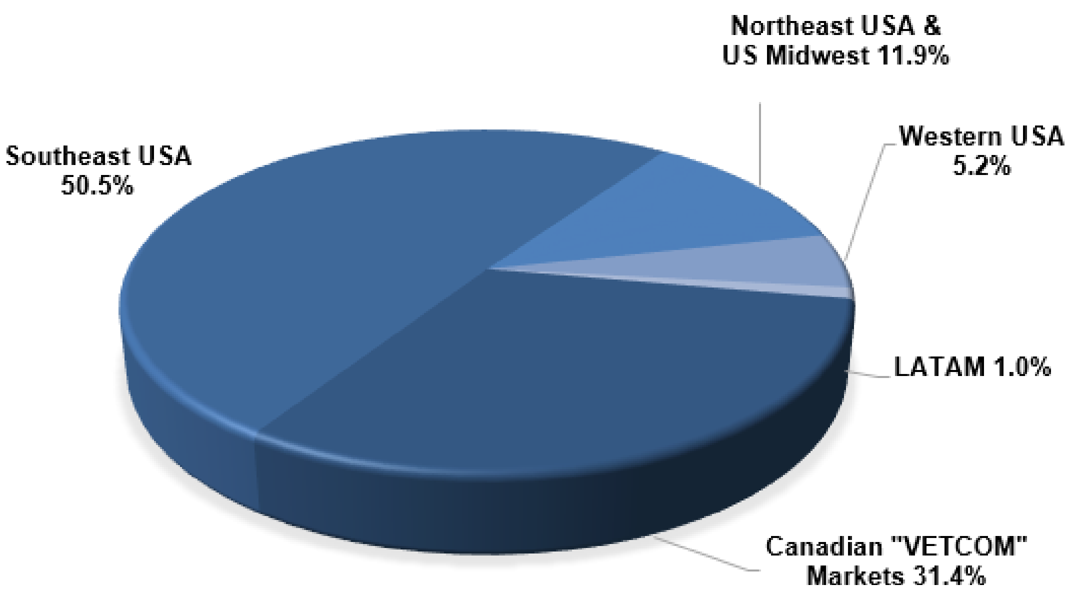


Chart 4 – 360 Degree Fund Geographic Exposure - September 30th, 2020



“VETCOM” markets consist of Vancouver, Edmonton, Toronto, Calgary, Ottawa and Montreal

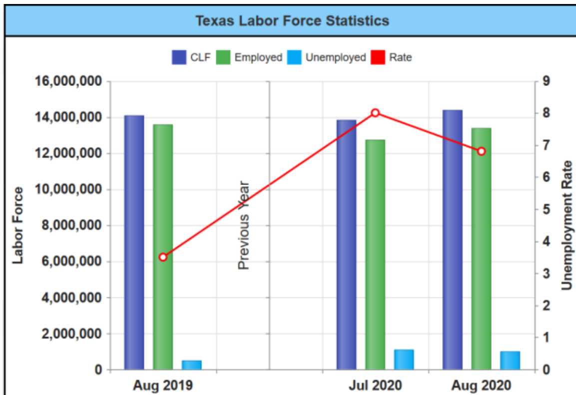
360 Degree Realty Income Fund 3rd Quarter: Highlights

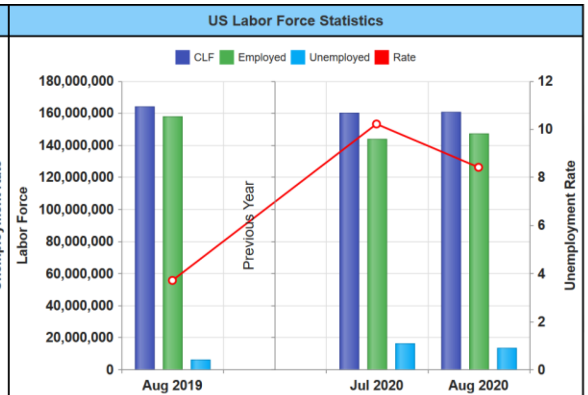
For the 3rd quarter of 2020, the fund declined by 3% in local currency terms and 4% in Canadian dollar terms. The fund reports in US dollars and has a bias towards US growth markets with a minority 31.4% invested in Canadian "VETCOM" markets as detailed in Chart 4. The Fund continued to think about its tenant base as being comprised of three buckets: those who live in their space by necessity or choice, those that work in their space but who must occasionally work remotely and those who can only operate if their space is open. We describe the last group as centering around mainly client-facing businesses and the bucket most prone to rental leakage during periods when COVID restrictions are severe. Fortunately, the fund **avoids "trophy" assets** such as niche hotels, restaurants or entertainment complexes for two primary reasons. First, the cash flows associated with "sexier" assets are difficult to model even under the rosiest of economic scenarios defined predominantly by full employment and full capacity utilization rates. Furthermore, given the type of investors we are looking to attract into the fund, as well as, the fund's main role within the larger Alternative Asset Trust, assets offering cash-on-cash yields of 7-9% across an underwriting period of 7 years are more closely aligned both sets of objectives. Currently, two sets of real estate products meet this need while suffering from only minor implied hits to IRR [internal rates of return]. Garden-style multifamily residential complexes [both in US Gateway Cities and Tier 1 MSAs] offer the more confident cash-on-cash yields that comes with occupancies routinely hitting the low 90% range [even under lockdowns]. For IRR lovers though, these assets *also* offer the optionality of mid-cycle recapitalizations or more exotic transaction opportunities such as bisecting large residential complexes into two separate (and smaller) complexes which gain a liquidity premium not afforded to gargantuan properties. Only minor capital investments in things like natural boarders (hedges, trees and landscaping) and technology solutions (like Wi-Fi enabled delivery lockers which function to limit in-person interaction) are needed to greatly enhance the appeal of such properties to both tenants and investors. More recently, medium-sized "starter" homes outside of urban areas – and the land banks on which such developments are slated to be built – have been surprisingly capable performers in a post COVID yet still COVID environment. It seems more and more Millennials are getting married and starting families driving emigration and deurbanization from areas like my old neighborhood at Front and Spadina in Toronto's downtown core to places like Mississauga, Milton and Burlington in the West and Whitby, Oshawa and Ajax in the East.

[Mississauga Ontario has buses, cars and condos just like downtown Toronto…just less of them…ahhh…space.]

While areas on the periphery of the GTA have suddenly caught a “bid” thanks to COVID the supply and demand fundamentals in many US states and cities are more favorable. Consider Texas for a moment. Single family home sales rose by 14% in Houston on a year-over-year basis and the median new home sales price in Houston this past August was $277,400 which represents a 9.5% increase compared to last year. Perhaps more importantly is that the Houston market’s current position is underpinned by a slimmer 2.8 months-worth of supply of product compared to 4.1 months-worth of supply in August of 2019.

Helping to finance suburban dreams is data from Fannie Mae which showed us that average 30-year rates of 2.87% are simply too hard for buyers to resist. Additionally, when it comes to overall economic performance, Texas truly is a standout state. Texas’ larger and diversified economy entered the pandemic in a position of enormous strength, helping it to weather the storm and rebound strongly.





	Aug-20	Jul-20	Aug-19	Yearly Change
Civilian Labor Force	14,378,010	13,834,694	14,090,993	287,017
Employed	13,403,380	12,721,089	13,598,543	-195,163
Unemployed	974,630	1,113,605	492,450	482,180
Unemployment Rate	6.8%	8.0%	3.5%	3.3%

	Aug-20	Jul-20	Aug-19	Yearly Change
Civilian Labor Force	160,838,000	159,870,000	163,894,000	-3,056,000
Employed	147,288,000	143,532,000	157,895,000	-10,607,000
Unemployed	13,550,000	16,338,000	5,999,000	7,551,000
Unemployment Rate	8.4%	10.2%	3.7%	4.7%

[The Texas Labor Force is large, diversified and strong outperforming overall United States both in the areas of extent of COVID damage and speed of recovery from COVID. For perspective, a labor force of 14 million people would be 72% of the size of the entire Canadian labor force in a single US state.]

Commercial Real Estate (CRE): Last quarter we covered the CRE market mainly from the perspective of debt capital markets, which came back to life mid-way through the 3rd quarter. This quarter, we felt a useful exercise might be to outline for you the trends we are seeing in CRE from a broader private equity perspective as we feel they will help you understand and gain greater insight into our thinking. To be more clear, large private equity groups like Blackstone and Carlyle are looking at many of the same assets we are looking yet taking a pass. Instead, behemoth sized PE firms are looking to swallow large, distressed assets quickly without as much consideration given to pricing. Since distress has really only shown itself in more exotic products types like the niche hotels and resorts we mentioned earlier [and which we avoid for reasons already outlined] an entire secondary layer of opportunities in land, single family homes and garden style multifamily residential assets has been offered to firms like ours. Though not as exciting as [possibly] high IRR opportunities in distressed assets, we view our obsession with cash-on-cash yields as not only consistent with this fund's mandate but our broader firm-wide mantra of safe harbour investing.

Multi-family Residential: What has not changed about our love affair with multifamily residential real estate is that it is an excellent, durable core holding in a real estate fund that aims to be consistent. What has changed about our love affair with multifamily residential real estate however is our perception of location and transit infrastructure. Several years ago, locational premiums came mainly from being proximate to or in a large urban core like downtown Toronto, Miami's South Beach or Brickell Drive neighborhood and of course NY and LA. And transit hubs functioned to raise the appeal of such locations even more with many transactions in the sales pipeline geared towards *increasing* FSI [Floor Space Index] metric or adding additional units or homes to a plot

of land. COVID presented us with the requirement to think about space differently in general. Along with that came a solution to the Achilles heel of so many rural submarkets: a modern transit infrastructure. Not only did the residents of this town have to drive to work, COVID made them prefer to do so given the option of transit.

Industrial: While possibly even less exciting than residential assets are large logistics terminals in non-gateway cities. The domestication of the American supply chain has provided these assets with rich value add opportunities that allow you to more effectively meet a tenant or tenants needs. Industrial assets and their investment appeal will grow with flexibility and technology being the primary sources of value to prospective tenants. Recall that our zeal for industrial assets stems mainly from the relative easy by which they can be constructed [most are nothing more than 150,000 square foot boxes with offices out front, truck ports in the back and the mechanicals necessary for quick turnaround times in the middle].

Office: Given the uncertainty regarding many sectors of the economy, office remains our “wait and see” product within the fund. One market-based barometer of office performance is the extent to which square footage is available for sublease [i.e. the idea that if your firm is not using your office perhaps someone else can]. There exists a broad range of subleasing activity when more congested cities such as NY predictably leading the way in subleasing activity [a real estate headwind] while most cities in states like Florida, Georgia, the Carolinas and Texas offering significantly less in the way of subleasing opportunities [a real estate tailwind]. Clearly, with 18.3% of the fund invested in office properties, we cannot take for granted the prestige of traditionally sought after address like our own offices at 130 Bloor Street [a building owned by Kingsett Capital] and so we are working closer with our partners in this category to understand rent roll impacts and of course the level of cash reserves on hand to better insulate returns.

Retail. As we mentioned earlier, retail headwinds continue with signs of distress beginning to form here more than in other products. Thankfully, our tenant base which includes the likes of Tiffany’s offers, on average, a better credit quality and customer base than third tier strip malls and plazas. Still, retail’s plight merits careful attention whenever the elation of an economic re-start is offset by the reality of looming lockdowns.

Real Estate Portfolio: Activity

During the quarter, the Fund exited a position in Avalon Trails in Delray Beach Florida. The distribution from Avalon [a partnership with 13th Floor investments] was generated by a bulk sale of the remaining townhome inventory. The Avalon venture is now on pace to generate a 2.0x gross multiple and 29% IRR for the Fund and represents the last of several strategic exits marked by the COVID pandemic.

[Great weather, great community, great tax regime…explain to me why you are living in Toronto again?]

The next transaction in the fund concerned the Boston-based REIT Plymouth purchasing two St. Louis warehouses for $27 million. The property, known as the St. Louis Commerce Center, is a block away from the future site of the $1.7 billion western headquarters for the National Geospatial-Intelligence Agency. The NGA project is slated for completion in 2025. Our Fund invested $527,451 in the centre in May 2017 and over the life of the investment received proceeds totaling $1,946,693, resulting in a return of 3.7x and an IRR of 44.7% over a holding period of approximately 3.5 years. The significant return is the result of the Fund investing in a co-GP capacity in which it was promoted off of the project's limited partners and the co-sponsor. The sale closed on September 2, 2020 to Plymouth REIT. We are very pleased with the outcome of this investment and completing the sale in these difficult times.

[Boring to look at but a darling to own, industrial assets like the St. Louis Commerce Center are in demand.]

During the quarter, the fund also expanded its partnership with CBA Land Capital, a Texas-based acquirer of acreage intended for home building. The CBA team offer off balance sheet financing to larger, publicly traded buyers like DR Horton and Lennar, who in turn do not have to tie up capital in multi-stage developments.

[Land banking took a turn for the better in a world with more people looking to move to the suburbs and not enough supply of single family homes.]

[Most well executed land banking deals look like this at the tail end of elder vintage funds. We are thus far extremely pleased with our Texas land exposure and partnership with CBA Land Capital.]

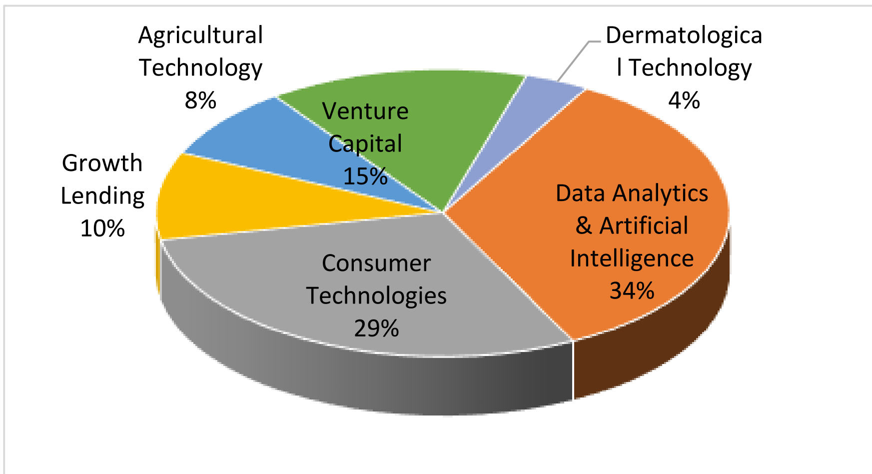
Real Estate: Closing Remarks

Much like in the last quarter when we stated that we were extremely confident in our real estate holdings we maintain that view today. Last quarter, we said that we had to consider a world in which COVID related lock downs were longer and more disruptive and despite highly, highly conservative modeling assumptions from the Portfolio Manager, the fund has done well through a very uncertain 2020 campaign thus far. As always, we will pay close attention to incoming data and react accordingly.

Private Equity: MacNicol Emergence Fund

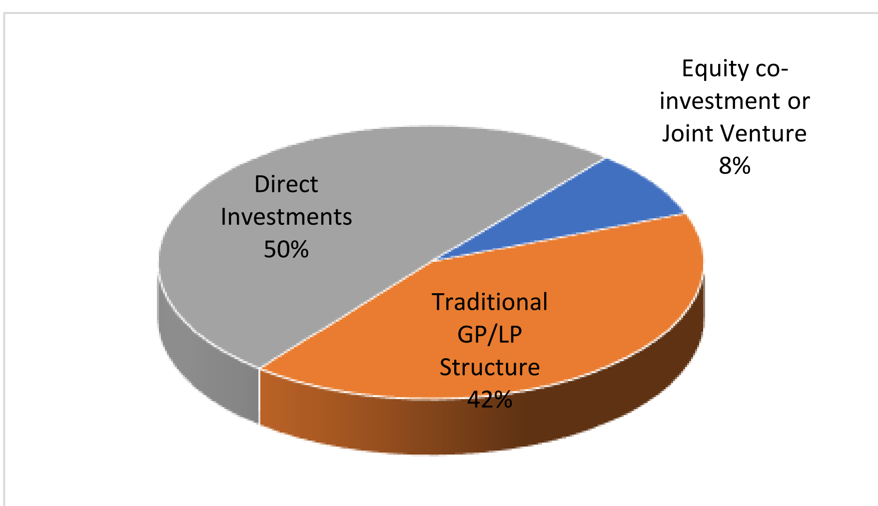
Private equity is an alternative asset class comprised of capital that is not listed on public stock exchanges. Through direct ownership in private companies, equity co-investments in private companies and limited partnerships that hold several private companies, the Emergence Fund invests in a range 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, September 30th, 2020



Anchored in data analytics and artificial intelligence, and complimented by a range of consumer technologies, the fund also invests in venture capital and growth lending. During the third quarter of 2020 the fund was higher by 2.7% as strength in venture capital, anything related to e-learning/commerce/medicine and robotics were performing ahead of revenue and EBITDA expectations.

Chart 7 – Emergence Fund Investment Vehicle/Entity Mix, September 30th, 2020



While admittedly not of keen interest to most of our investors, Chart 7 describes the breakdown of the various entities “vehicles” that the Emergence fund owns. You may notice that compared to previous years versions of the Emergence Fund’s “Fund Fact Sheet”, direct investments appear to represent a larger allocation within the fund than before. Part of this is explained by active investments in individual companies such as telMAX and Flow Alkaline Spring Water, which we commented on earlier. But part of the reasoning pertains to older, more mature vintage traditional GP/LP funds approaching the end of their investment horizon. One way to capitalize on the traditional GP/LP structure is to buy equity co-investments, which we have done in recent years also. Looking ahead, our next investment opportunity will be defined more so by return objectives and underlying risks – than structure. But we nevertheless wanted to give you some colour around an often-overlooked chart in our work.

Private Equity Portfolio: Activity

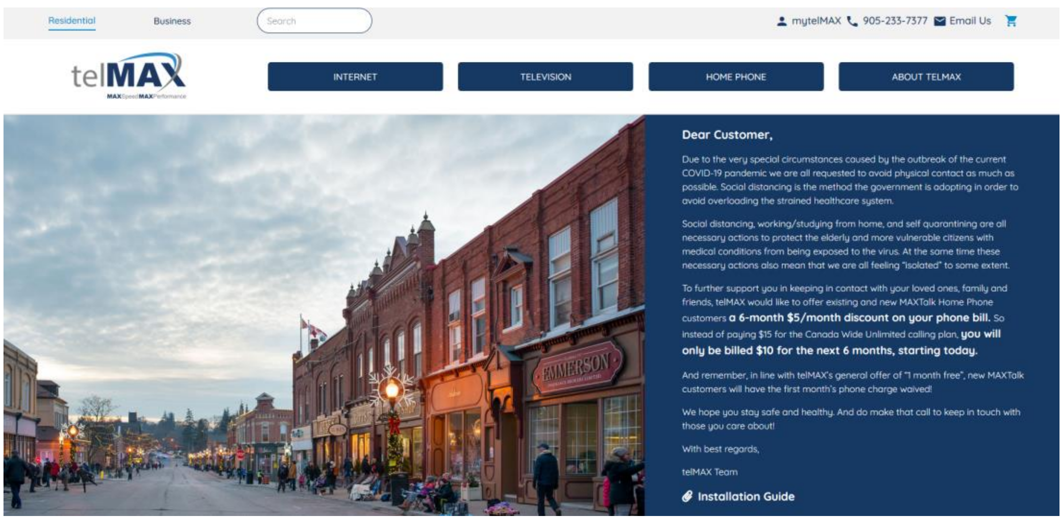
During the quarter, the fund acquired an interest in Global Solutions Team, a privately held firm engaged in accelerating customer engagement and retention with global brands. By leveraging B2B collaboration, long established brands can insulate themselves from disruptions that come from the likes of Google, Amazon, Facebook, Apple and Microsoft.

GLOBAL SOLUTIONS
T E A M

[In partnering with Global Solutions, the Emergence Fund avoids individual brand exposure by instead leveraging the acceleration of engagement and retention to the brands through B2B collaboration.]

The fund has in general opted to seek out high-technology investment opportunities without the elevated valuations associated with the “Big 5”. Global Solutions Team, through its leadership and extensive technology platform will aim to supplant the existential threat a pure focus on market share [as opposed to profit] in terms of what customer lock-in can mean to other retailers.

Punctuated by COVID and the massive social experiment that is "working from home" our investment in Durham, Ontario based telMAX is moving forward. Although we are under a strictly enforced NDA, we can update you that the company is engaged in final round discussions with a large, strategic, US infrastructure investor for a strategic transaction in the USD $40-60 million range. The transaction will [greatly] enhance the speed-to-exit for our telMAX investment, which is forecast to be either an IPO or sale to a group whom we are familiar with but which we cannot mention here due to privacy.

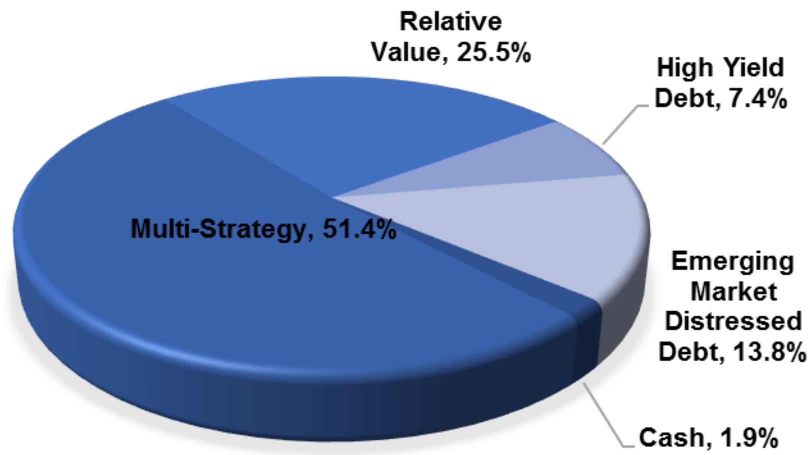


[When it comes to evaluating the performance of fiber optic cables over copper wires, simply ask a Physicist or anyone working from home.]

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 third quarter of 2020 the fund was off by 3.4% with weakness in emerging market distressed debt markets offset by relative value and domestic high yield debt.

Chart 8 – Absolute Return Fund Investment Strategy Mix, September 30th, 2020



Absolute Return Fund: Activity

Activity during the quarter was limited to a rolling over of certain high yield positions and final stages due diligence on a Toronto-based small capitalization specialist who we will discuss in greater detail next quarter.

Closing Comments

Last quarter, we had commented that we were awestruck by how strong markets rebounded in the 100 days that passed since March 23rd, 2020. With the Alternative Asset Trust officially having turned 10-years of age on October 6th, 2020, it behooves us to look back at 10 years of very solid returns with only moderate levels of risk. Often, when possessed with the question of how we envision the trust changing during the next 10 years the answer is on the one hand impossible to know with certainty yet at the same time glaringly obvious: the fundamental goal of the trust and who it is intended to

ultimately serve will never change and we will always apply careful, independent judgement when evaluating investment opportunities for inclusion in the trust.

Most importantly of all, we would like to thank each of you for your trust in this Trust. In sports they say it takes a whole team to win a championship and at MacNicol & Associates Asset Management we like to say, “we don’t have clients, we have partners”, a mantra that has helped the Trust achieve what few others before it have. So, thank you very, very much.

MacNicol & Associates Asset Management Inc.
October 2020