Alternative Asset Trust Quarterly Report

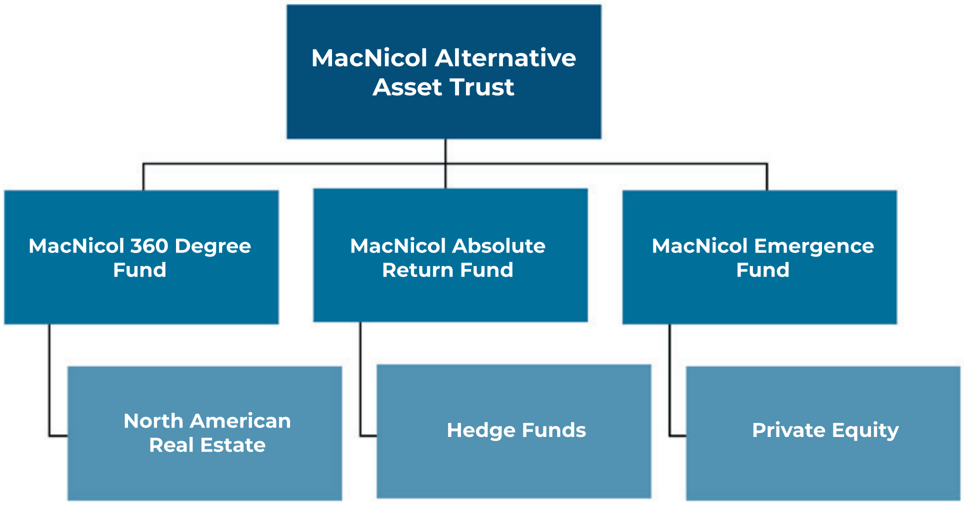
3RD QUARTER 2023

MacNicol & Associates
Asset Management

Alternative Asset Trust Third Quarter 2023 Report

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



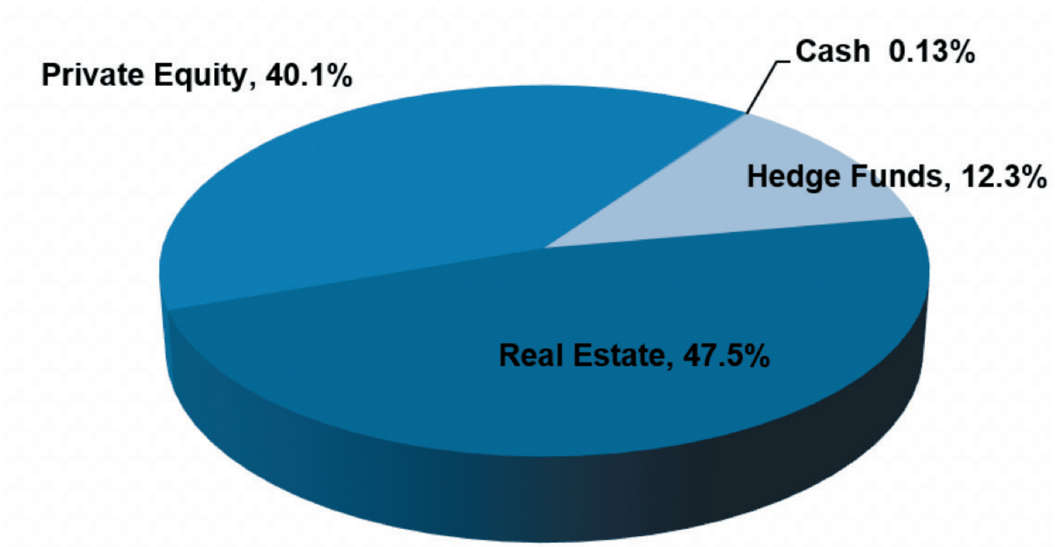
Alternative Trust Update: The goals of the Alternative Trust are to generate attractive risk-adjusted returns using private investment opportunities so investors can reduce their dependence on public market investments. During the third quarter of 2023 the Trust was higher by approximately 1.4%. Returns from private real estate and hedge funds were higher during the quarter, and strong enough to offset mixed results in private equity. During the quarter, the Trust realized two notable exit transactions and made a small number of carefully thought-out new investments. The Trust also experienced a more familiar pace of general transaction activity on the part of its investments, with capital being harvested from older vintage partnerships and called to newer vintage deals earlier in their investment periods which we view as positive. September also marks the Trust's final month as a "child" and of its transition to teenagerhood in October.

The Trust began operations in October of 2010 and over nearly 13 years it has generated a rate of return of greater than 10% net of all fees and expenses, while subjecting unitholders to a nearly whisper quiet 6.8% rate of annualized volatility which is 2.7 times less than that of the S&P500 over the same time frame. Great investments are nothing without great investors and the Trust's unitholders, which include many of you. Though we log hundreds of hours each year working as gatekeepers to ensure that only the most carefully scrutinized investment ideas receive your capital, working for such an amazing group of clients is an honour and a pleasure, and we thank you for entrusting us with your wealth.

The MacNicol Investment Team

With the Trust's broad third quarter highlights covered in the update section, let us now turn to a more focused overview of the Trust's overall asset mix and dive into the Trust's individual limited components.

Chart 2 – Alternative Asset Trust Asset Mix, as of September 30th, 2023



Alternative Asset Trust: third quarter asset mix review

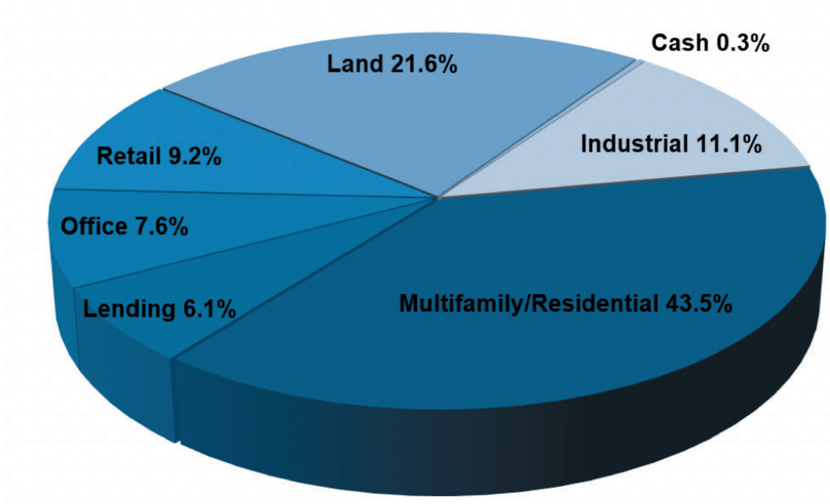
As described above in Chart 2, the Trust's overall asset mix was anchored by a stable foundation in private real estate and supported by complimentary positions in private equity and hedge funds. The Trust also held a small cash position, which varied throughout the quarter, and which was used to make new investments and fund overall operational activity.

In comparison to the prior quarter real estate's position as the Trust's top asset class was driven by strong tenanting velocity in multi-family residential as well as logistics and storage assets. Even more impressive was the pre-contracted value of certain of the Trust's land investments in south Texas and held by the 360 Degree Realty Income Fund, which we discuss in greater detail below.

North American Private Real Estate: 360 Degree US 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. In total, the 360 Degree Fund holds over 120 real estate projects across 6 well defined product types described in Chart 3 and in select regions as illustrated in Chart 4.

Chart 3 – 360 Degree Fund Product Mix, as of September 30th, 2023



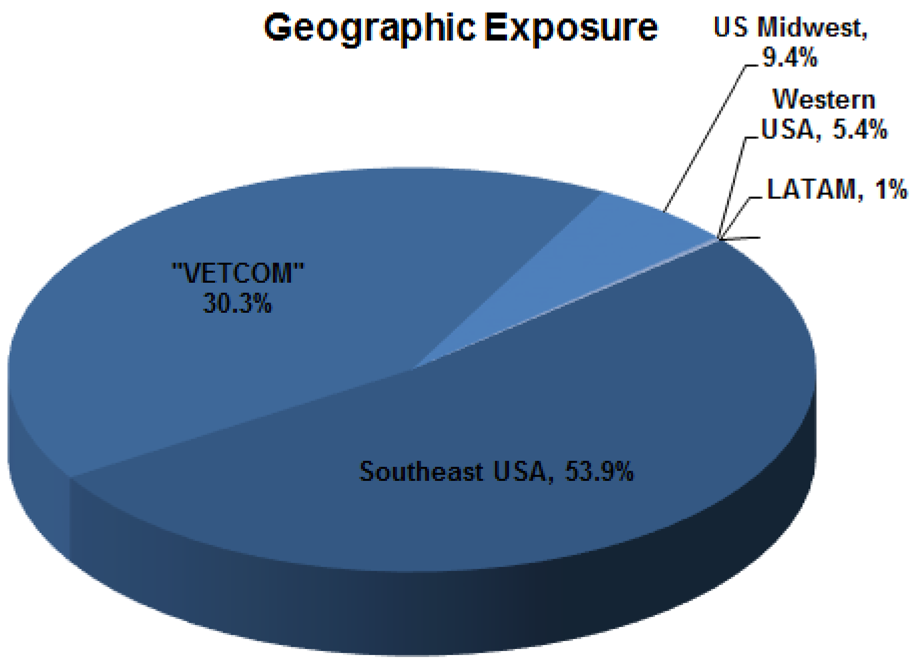
The most notable increase in the fund’s overall mix of products was the visible increase in land in a partnership with Connor Real Estate Investment. The Connor Team is well known to us, and this relationship has resulted in MacNicol investors sitting owning a stake in pre-development investment lands (PDLIs) slated for or already in development by certain of the largest Master Planned Communities (MPC) in the United States of America.

“Cypress Green”, “Sunterra”, “Balmoral”, “Harmony”, “Lago Mar”, “Sierra Vista” and “Rancho Cucamonga” may not necessarily be familiar to all Canadian investors however each rank very highly on industry specific reports. For example, in *The Top-Selling Master-Planned communities of Mid-Year 2023* by RCLCO Real Estate Consulting (Gregg Logan and Karl Pischkle, July 25th, 2023) MacNicol investors can document their own “quantum leap” as land investors even in an environment of elevated rates and uncertain times. The second reason behind land’s larger surface area in the fund is the extremely strong performance of the large strategic logistics asset Gulf Inlet Logistics Park “GILP”.

Gulf Inlet Logistics Park is a multi-million dollar investment for the 360 Fund located just 30 minutes from Downtown Houston and the Port of Houston, and 45 minutes from the Woodlands and Hobby Airport.

GILP is an 1,150-acre strategic parcel of land flanked by Union Pacific and BNSF rail lines that are major gateways to the US manufacturing and energy industries. GILP is well located and additionally offers direct access to the Grand Parkway, US Highway 90, and State Highway 146. Since making the initial investment in GILP, the Portfolio Manager has monitored this large asset closely and reviewed detailed financial reports and legal documents including signed: NDAs/PSA/LOIs that support periodic mark ups and steady progress to what is telegraphed to eventually (and potentially – no guarantees) be a 50% IRR*.

As indicated in Chart 4 below, the fund's geographic exposure at the end of the third quarter was almost identical to that at the end of the previous quarter and the Portfolio Manager does not anticipate material changes to this exposure in the near future. More than two thirds of the fund's assets were located outside of Canada providing ideal geographic diversification to investors based in Southern Ontario, Western Canada, and the Maritimes.



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

360 Degree US Realty Income Fund third quarter performance review
During the third quarter of 2023, the fund was higher by 6.7% in Canadian dollar terms as a winning mix of product and a supportive US dollar help gained investors disarm the often-misunderstood narrative that higher rates automatically destroy valuations in all real estate. With respect to the US dollar, the unrelenting move higher in US treasury yields is something we have followed closely. Whether US yields plateau or gain altitude is of course anybody's guess. Our guess would be that in the near-term, it is likely that USD/CAD is overbought and poised for a reversal as the likelihood of a further escalation in yields moderates.

Therefore, existing positions in US real estate in our view should be maintained. Longer-term, particularly into 2024, we sense that the US Federal Reserve will go to work *faster* than the Bank of Canada when it comes to responding to any fledgling signs of reduced inflationary expectations offering potentially a more varied opportunity set for Canadians seeking US real estate exposure in their portfolios.

360 Degree US Realty Income Fund Third Quarter: asset class highlights
Multifamily Residential: Our residential portfolio continues to perform well in a world obsessed with higher interest rates. Is US multi-family residential real estate still unequivocally our favorite alternative asset? YES. However, times have changed, and we are beginning to see the impact of a new economic order on our beloved bevy of buildings. This time last year, double digit rent increases were as common as Toronto's soul crushing traffic. Rent increases continue mind you, but they are smaller and more often brought to you by transactions that are more technically complicated to source, scrutinize and fund (more on that in a moment).

Industrial: It is difficult to use the word "easy" in any investment transaction. However, industrial real estate (storage, logistics and distribution assets) remains by our estimation the real estate product type in greatest demand and with the lowest supply. We love the space thematically and have pointed out several times that beginning in late 2016 cap rates on industrial assets dropped below both office and retail. This landmark changing of the real estate investment guard signified that investors believed that the warehouses and distribution centers where "stuff" gets shipped were more valuable and less risky than the offices where the decisions on which "stuff" to produce get made, or the department stores where the "stuff" gets sold.

Land: You can forgive us for thinking that American writer Mark Twain was secretly a real estate Portfolio Manager. Twain coined numerous widely quoted gems but in our mind none as prescient, yet strangely incomplete, as "*Buy land, they're not making it anymore*". On the surface, an investment in land seems like a no brainer. That is until you remind yourself of the simple fact that land (in striking contrast to operating buildings) doesn't pay you rent. Thus, land is real estate's ultimate catch 22: it is simultaneously the highest and lowest risk investment you can make. So how does one escape land's contradictory rules or limitations? Easy…by taking Twain's famous quote and adding the followings words to it: ***"…as long as whatever land you do buy is properly papered".***

By properly papered we of course mean documentation. If the terms: Municipal Utility District ("MUD"), Planned United of Development ("PUD"), Tax Investment Reimbursement Zone ("TIRZ") or Water Drainage District ("WDD") mean absolutely nothing to you then please, leave the investing to us.

Office: Not all large office towers are empty, but hardly any are full. Canada's downtown office market vacancy rate now stands at 19% with offices in suburbia closely following at 18% (Source: National Bank Financial Markets). In the United States, vacancy there stands are 17.8% (Source: JLL). Office fundamentals are bad and expected to remain that way. A range of remote working technologies have made hybrid work not merely possible but profitable as employers seem more inclined to put pressure on their landlord than their workers.

360 Degree US Realty Income Fund third quarter: transaction summary
During the third quarter of 2023, the fund made two new investments and new is a very apropos way to describe them both. First, in a partnership with Venterra Realty, the fund acquired a stake in Ascend at Brittmoore in Houston, TX. Ascend at Brittmoore is a brand new 361-unit property located in Houston, Texas. Brittmoore was sold to the partnership by DR Horton Inc. (DHI-NYSE), the largest single-family home builder in the United States. As a publicly traded company, DR Horton needed to manage quarterly and financial results. In this context, and with numerous projects being built, DR Horton was willing to sell Brittmoore with a focus on **speed** and **certainty of closing** while the property is still in its initial lease-up phase, so the sale could be reported, and revenue included, in their current fiscal year that ends in September 2023. Traditionally, DR Horton would complete construction, lease up a property to stabilization (90% occupied) and then sell the asset by marketing it to achieve the highest possible price. At stabilization (90% occupied) the property would be financed by agency backed debt: Freddie Mac and Fannie Mae - the two agencies that account for most multifamily debt. Brittmoore will be approximately 75% occupied on take over, well short of stabilized, and therefore will not yet qualify for agency financing. The lack of readily available debt options and the complexities involved in taking over a property during its lease up has significantly *reduced* the pool of potential buyers for this high quality $78 million building. Only two other groups went ahead with offers. This type of transaction, where a developer sells a “pre-stabilized asset” ahead of normal timelines, has become increasingly common in today’s market, based on our own observations and constant discussions with dozens of real estate professionals.

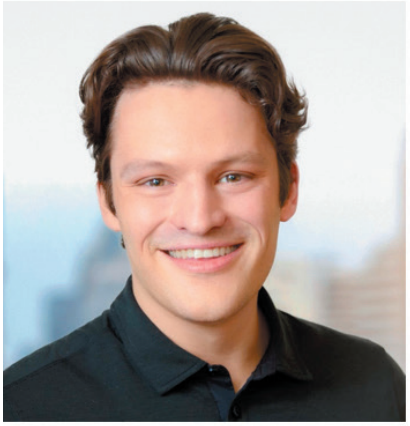
Most properties in a lease-up phase today have experienced some type of delay during construction, and all construction loans are either variable rate or with embedded rate options, with interest expenses soaring over the past year as rates have increased. Speed and certainty of close have increasingly become of more importance to developers looking to exit their projects, which necessitates departing from a strategy that would maximize sale proceeds.

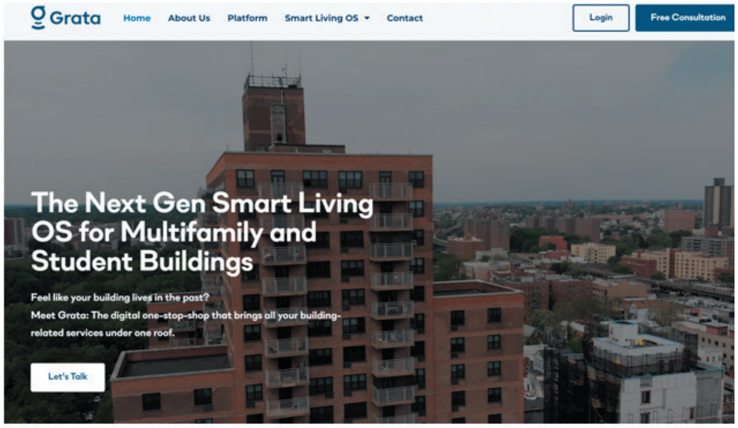
Brittmoore is our “more on that in a moment” example of why knowing how to buy real estate is these days as important as knowing which product categories to buy.

Ascend at Brittmoore looks brand new because it is.

The second transaction made during the quarter was the fund’s investment in a real estate technology business. Grata Life is a next gen smart living operating system (SLOS) for multifamily and student buildings. Grata is a business that we believe to be ostensibly detached from interest rate movements and thus a potentially effective antidote against interest rate risk. Grata’s SLOS should ultimately increase the performance and overall efficiency of larger residential complexes and communities by better linking tenants to landlords and landlords to asset owners such as us.

Grata’s CEO Troy Crema will be featured in our November webinar and we are as excited to hear from Troy as to be investors in his company.





Troy Crema was a heck of a hockey player. Turns out, Troy was also on to something when he clued in that the operating systems of many of today's multifamily and student buildings were as antiquated as the buildings themselves. Grata is a brand new company, literally, and it is already making waves with many established real estate groups including some well known to ourselves.

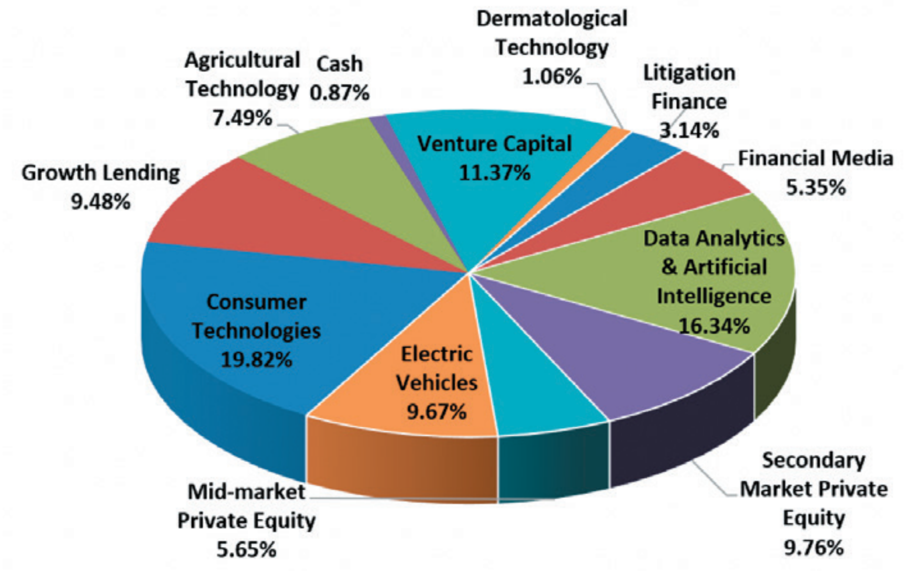
Real Estate: Closing Remarks

Higher rates can be perceived as a challenge for real estate investors and they probably should. But we prefer to see higher rates as an opportunity. An opportunity to think strategically on behalf our investors about the real estate landscape, about how real estate is acquired, and about whether technology investments in a real estate fund represent real or artificial intelligence. The 360 fund's greatest strength has always been its ability to use data to rotate away from traditional real estate stereotypes and towards new frontiers.

Private Equity: MacNicol Emergence Fund

Private equity is an alternative asset class comprised of capital that is not found 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 lends to growing companies which are quantified by their allocations in Chart 6 on the following page.

Chart 6 – Emergence Fund Sector Allocation, as of September 30th, 2023



During the third quarter of 2023, the Emergence Fund was lower by 1.6%. The funding crisis first reported at the end of the 1st quarter, and triggered by the fall of Silicon Valley Bank, continued into the 2nd quarter. But by the time quarter 3 rolled around, it became apparent that private equity's roll in financial markets wasn't impaired, it was simply being tested. Fortunately, the Emergence Fund would appear to have passed that test. In addition to a good chunk of capital being returned to the fund by older vintage partnerships, the fund also achieved two exit transactions in its portfolio of direct private company holdings and made a sizable new investment that we will comment on next.

Private Equity Portfolio: Activity

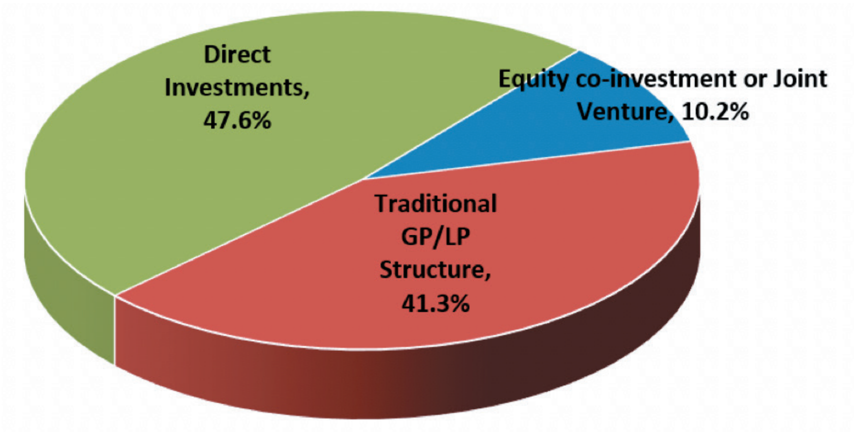
Emergence relinquished its stake in Game On Stream "GOS" via a sale to Live Barn. Though this exit transaction originated in the second quarter, an earned-out provision (which was achieved) saw Emergence collect its pro rata share of a nearly 5x MOIC in the 3rd quarter. Though admittedly taking longer to get to the finish line than we had originally thought, the IRR for GOS still clocked in at an impressive 22%.

Our second exit happened entirely within the confines of the third quarter, and it pertained to the fund's sale of electric vehicle manufacturer Fliteboard to Brunswick Holdings (market cap almost $5 billion) the parent of Mercury's marine division. The 10% IRR earned might seem like it was only treading water, until one realizes what a truly scary environment it was for many in this space. Like DR Horton's sale of Ascend to Venterra Realty, Fliteboard's sale to Brunswick was speedy, with only a 13-month hold involved on the fund's part.

After many years of due diligence, the fund made a substantial water investment with XPV Partners. The MacNicol Investment Team had been studying the water space with tremendous focus. We knew that the fund lacked a high-quality, sustainable water investment vehicle, but we wanted to watch from the sidelines to get a better sense of how XPV first two funds performed in the real world. With our minds made up, and with Emergence's bank account fresh off the heals of the GOS and Fliteboard sales, signing the XPV subscription agreement was actually the easiest last step it took to make this water investment a reality.

Chart 7 on page 12 outlines the fund's relative weight of direct private company holdings, equity co-investments and traditional fund structures. Only 40 basis points separate the third quarter's pie chart from the second quarter, so we will not comment further on our preferred choice of vehicle/structure other than to state that it is the underlying investment or business that we are investing in that has to make sense irrespective of the sort of vector it is packaged into.

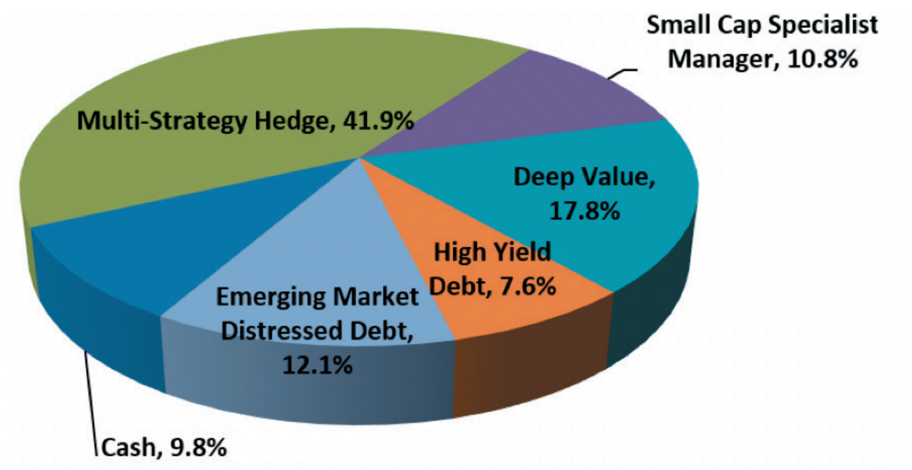
Chart 7 – Emergence Fund Investment Vehicle Mix, as of September 30th, 2023



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 2023 the fund was higher by 4.5%. The primary contributors to performance during the quarter were hedge funds specializing in statistical arbitrage and systematic trading algorithms. These funds can be located in the multi-strategy section of the Absolute Return Fund's strategy mix chart, see Chart 8 below. The main difference relative to the second quarter was an elevated cash weighting, which the Portfolio Manager has positioned to be ready for a potential new hedge fund investment slated for the fourth quarter.

Chart 8 – Absolute Return Fund Strategy Mix, as of September 30th, 2023



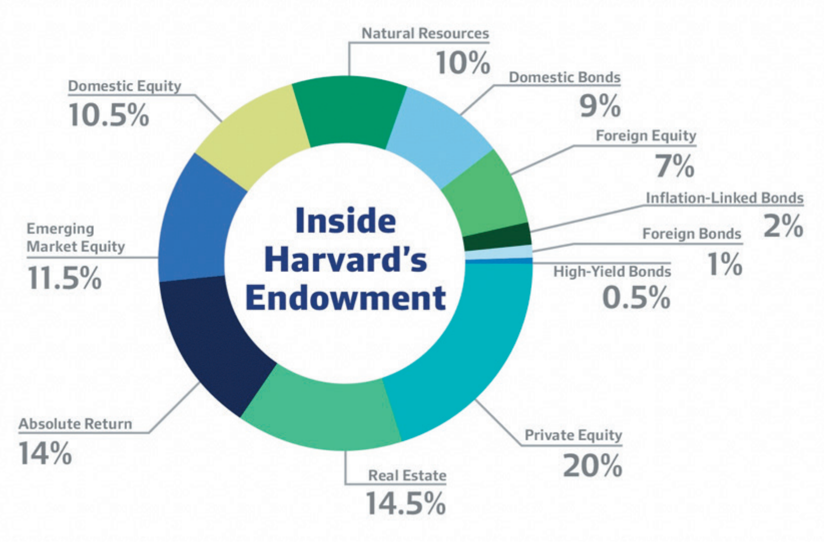
Having taken numerous statistics classes in University, the MacNicol Investment Team can tell you that the probability of these hedge funds deprioritizing market sentiment and market psychology, and focusing purely on numbers is very high. Very high, and a very important incremental addition to a diversified portfolio of many funds. Areas that were flat for the quarter include global macro and event driven funds, which were limited by a world in flux and substantial geopolitical risk factors. Lastly, dragging on performance, was the fund's position in credit arbitrage funds, which were confounded by higher rates and ubiquitous albeit abating inflationary pressures. Uber risk assets such as stocks in small companies and distressed debt, both zigzagged sharply within the quarter and saw the small bonds outperform the small stocks by quarter end. We underscore that any investment in shares of small companies or in distressed debt involves *substantial* risk and should not be contemplated without the advice of managers with specialized training in these areas.

Closing Comments

The third quarter of 2023 was a positive one for Trust during what was best described as a period of ongoing uncertainty, most notably in the debate around whether a recession will soon begin in North America. Shortly after the quarter end, Harvard University's Endowment Fund, the world's largest reported to plan members that it had posted a small surplus to the end of its own fiscal year (June 30th year end) a 2.9% return that left the program with $50.7 billion. A good position to be in no doubt, but a better position from which to draw guidance from. If one of the world's top university endowments can allocate heavily to alternatives and remain fully invested through entire market cycles and beyond, can't you? Harvard's asset mix is shown at the top of page 14, and it includes many of the same categories that the Alternative Asset Trust invests in.

Schools like Harvard and Yale as well as others were pioneers in the asset allocation space, and they invested heavily in alternatives for their attractive mix of long-term risk-adjusted returns.

The MacNicol Alternative Asset Trust invests heavily in alternatives so that you and your family have an alternative to huge swings in the stock market. Over just the past 3 years the S&P500 dove to 2300 points during the depths of COVID, then spiked up to 4,700 points a year later and today sits at 4,200 points. The Trust's experience over the same time has been noticeably straighter and smoother.



Over time we believe alternative assets will not just help our investors realize their long-term investing goals but all investors. October is the Trust's 13th birthday, and our excitement is palpable. The Trust recently won a new batch of awards from the industry group Alternative IQ. As pleased as we are to garner attention and recognition from our profession, we cannot possibly be more pleased with the opportunity to help you and your family reach your long-term investment goals with our Trust's innovative approach to investing and our firm's commitment to independence and objectivity.

MacNicol & Associates Asset Management Inc., October 2023

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