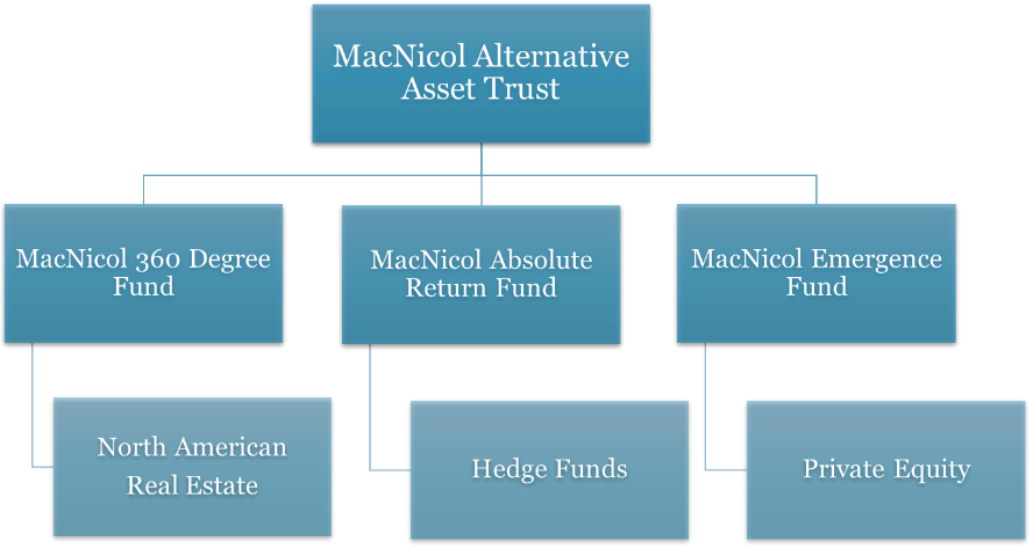
Alternative Asset Trust 3rd Quarter Report: September 30th, 2021

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. As of the end of the third quarter of 2021, the Trust was higher by 10.2% after accounting for all fees and expenses. Within the third quarter, the Trust was higher by 2.3%. The Trust continued to receive cash flows from exits on full cycle investments and from new investors at MacNicol whose individual portfolios will now begin to reflect alternative asset exposure.

3rd Quarter 2021 Highlights:

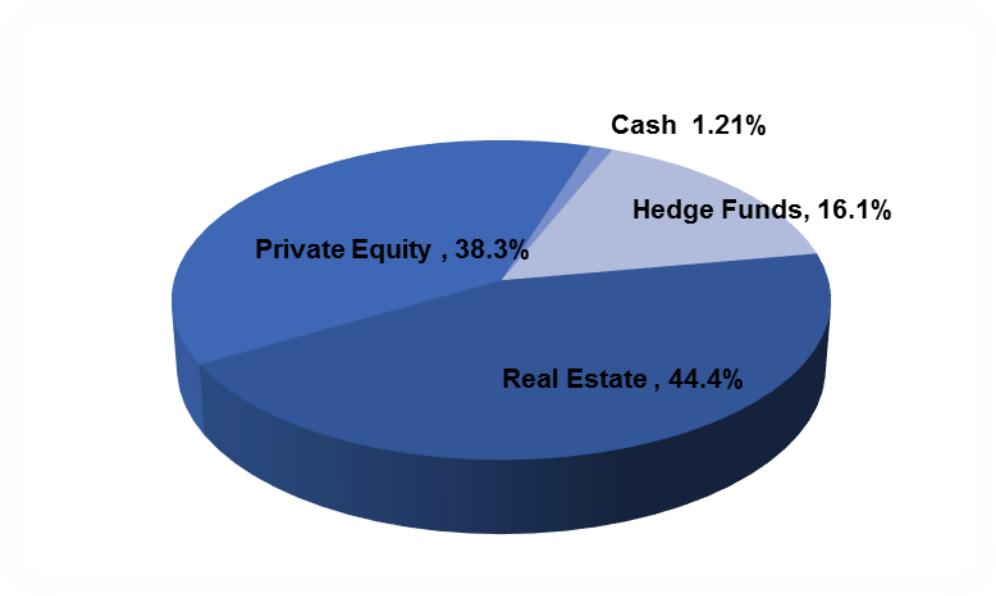
The 3rd quarter of 2021 was defined by contagion risk in the portion of the Asian bond market that helps finance real estate development, a suddenly more Hawkish US Federal Reserve. While this occurred, investors continued to evaluate the progression of COVID 19 vaccination rates and the rise of the more infectious delta variant. Higher energy prices stoked inflation, and a [internet-targeted] regulatory crack-down made investors generally far less confident about stocks. In certain sectors, such as airline stocks or those connected to travel and tourism, valuations represent an unreasonable level of investor optimism in earnings growth particularly when factoring in that recent quarterly reports include massive support programs from the Federal government that would have otherwise led to losses. Global supply chains were also highlighted by the rapidly shifting automotive sector. For a year and a half, a lack of computer processors has been plaguing the automotive industry, forcing plants to shut down, delaying shipments and sending car prices and particularly domestic pick-up truck prices through the roof. But that's not the only problem automakers raw material shortages due to a variety of reasons, including Covid-related storage center closures by suppliers, logistical problems involving shortages of ships, containers and truck drivers, and difficulty that some suppliers are having filling jobs is adding to the challenges the sector is facing.

Source: FactSet (5pm EDT)

	Price	Change	YTD
S&P TSX	20,070.25	-0.44%	15.13%
S&P TSX 60	1,203.34	-0.52%	16.29%
S&P/TSX Venture	858.87	0.30%	-1.88%
S&P 500	4,307.54	-1.19%	14.68%
NASDAQ Composite	14,448.58	-0.44%	12.11%
Dow Jones Industrial Average	33,843.92	-1.59%	10.58%
iShares MSCI ACWI ex U.S. ETF	55.41	-0.04%	5.57%

[Markets for the most part hung on to their double-digit gains as the 3rd quarter concluded. But a growing sense of the possibility for a risk re-rating was hard to ignore. Smaller company stocks fell into the red during the quarter as investors tended to vote in favor of higher quality blue chip names and the safety of real assets.]

Chart 2 – Alternative Asset Trust Asset Mix September 30th, 2021



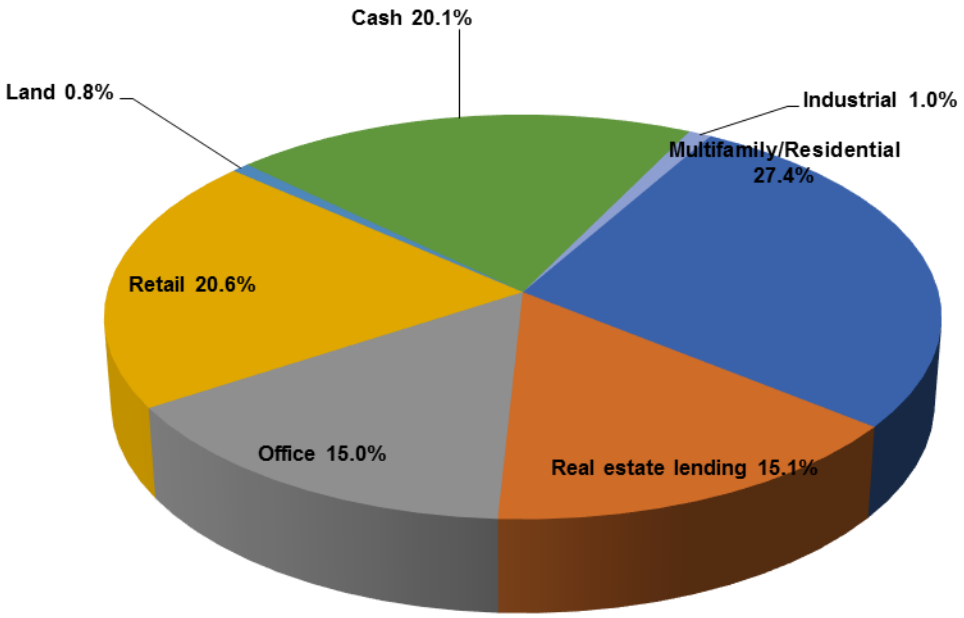
Alternative Asset Trust: 3rd Quarter 2021 Overview

As described in Chart 2, the Trust's overall asset mix was largely the same as it was during the second quarter of the year with only new investments in real estate functioning to offset cash levels. Currency exposure for the Trust was more pronounced during the third quarter with 67% of assets under management reflective of US assets versus 66% last quarter. Liquidity was also on par with past quarters with 17.3% of the Trust's assets liquid within 90 days, a decline of only 50 basis points. The balance of investments remains stratified across 1 to 5 year investment cycles, with recent new investments now reflecting in the Trust's overall liquidity profile.

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. 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 at September 30th, 2021

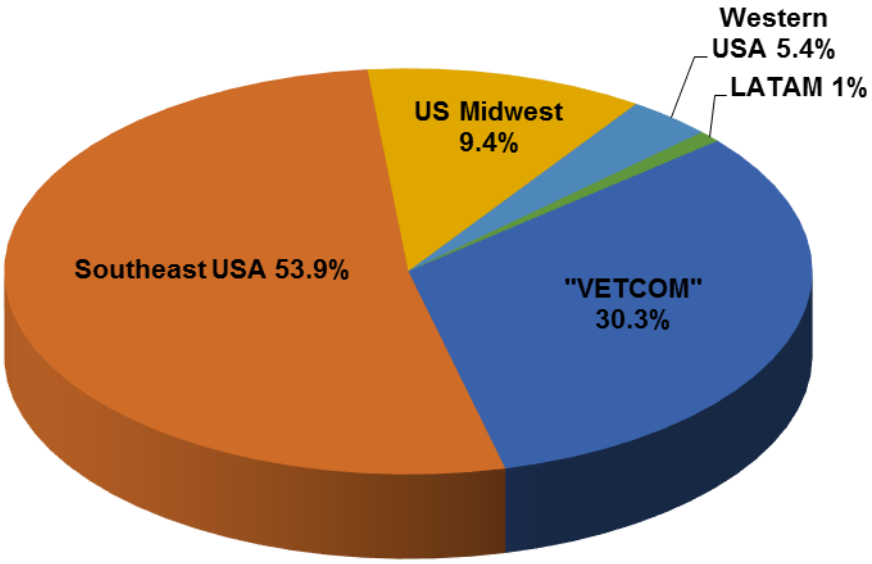


Our preference for valued added projects in US growth markets continued during the quarter and we had the opportunity to rank our favorite real estate asset classes based on incoming data from program partners and our outlook for the space. The ranking below is by no means all encompassing, subject to change, evolving right before us and [most importantly] not necessarily a "menu" for a preordained asset mix that the fund may have in the future. Rather, we approach real estate as you do: by examining every single facet about each opportunity we scrutinize. With that said, the ranking is as follows:

1. **Suburban Multifamily Residential**
2. **Industrial**
3. **Urban Multifamily Residential**
4. **Suburban Office**
5. **Urban/Core Office**
6. **Grocery Anchored Retail**
7. **Leisure Hotel**

The fund's geographic mix, which is detailed in Chart 4, remains focused on US growth markets with above average rates of GDP growth and a younger, more technically savvy demographic backdrop.

Chart 4 – 360 Degree Fund Geographic Exposure at September 30th, 2021



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

360 Degree Realty Income Fund 3rd Quarter: Highlights

During the 3rd quarter of 2021, the fund rose by over 5.5% in local currency terms and by 7.8% when converted into Canadian dollars. Lower capitalization rates in our preferred real estate categories: multi-family residential and industrial signaled more confidence on the part of institutional investors. To a lesser extent, high profile bidding wars for certain industrial assets also make us confident that we are positioning the fund appropriately for the future. Barry Sternlich and Sam Zell recently engaged in a $2 billion tug of war over a family-owned real estate asset manager in New Jersey called Monmouth. Monmouth investments has assembled an impressive portfolio of nearly 120 warehouses across the United States that skyrocketed in value during the pandemic, and which offer investors inflation protection through cash-on-cash yields in the 7-8% range.

Battle of Monmouth: Zell and Sternlicht's $2B struggle over warehouse REIT

Inside Starwood Capital and Equity Commonwealth's bidding war for a portfolio of real estate's hottest asset class

October 2021 Issue / By Keith Larsen and Rich Bockmann October 05, 2021 07:00 AM

Sam Zell (left) and Barry Sternlicht (Photos by Studio Scrivo and Emily Assiran)

[While we are attracted to industrial assets we will not interfere with titan sized battle for warehouses.]

Commercial Real Estate (CRE): The commercial real estate market continues to deal with the impacts of the COVID-19 crisis. With vaccinations on the rise some sub-markets are relaxing restrictions and re-opening wider swaths of their local economies. On the other hand, the delta variant has [if anything] created confusion in several other sub-markets that are more travel focused. Policies around vaccine authentication and quarantining continue to see many travels wait on the sidelines.

Multi-family Residential: Long one of our favorite real estate categories, multi-family residential real estate is benefitting from supply and demand imbalances in new product offerings and in the increasingly great lengths needed to become a homeowner. Rental properties are doing extremely well and many of our assets in the space are completing their semi-annual appraisal exercises with most class A multifamily assets worth more than this time a year ago. If anything, multifamily residential real estate's success has created a situation in which investment capital is now "chasing" properties and causing bidding wars in many sub-markets. Two things are required in order to deal with this situation. First, the temptation to avoid overpaying for a property must be avoided and a disciplined investment process will help to ensure this does not happen. Second, investors must be prepared to think creatively about how they acquire multifamily assets.

The 360 Degree fund has begun to see more "off market" transactions come its way. Many, including one we detail in the section on Real Estate Portfolio: Activity, are more technically complicated and difficult to close than conventional transactions. However, partnering with the right groups – especially those with deep technical expertise in their local markets and with a track record of successfully closing off market transactions – can get investors the assets they want at the price they are willing to pay.

Industrial: Easily one of our favorite real estate categories at this point in the cycle, industrial real estate almost merits its own full-length report, and perhaps one day that will indeed be what we do. For now, it is important to understand our overall stance on industrial as it will provide helpful context for our recent activities in this area, and which we also update in the Real Estate Portfolio: activity section.

Broadly speaking, a combination of public policy, tax laws and economic opportunity have made the southeast the economic "engine" of the United States and this has resulted in a massive migration of population and wealth into the region. Simultaneously, product consumption has migrated from brick-and-mortar retail to e-commerce, increasing the demand for warehouse distribution space geometrically in areas of high population and disposable income growth like the southeast. COVID-19 has accelerated these trends and has also effectuated change in inventory management from "Just-In-Time" to "Just-in-Case," further amplifying demand for warehouse space. These new demand drivers are permanent, growing and have "juiced up" historically strong markets in the southeast. This is projected to lead to a prospective period of long-term demand for industrial space outpacing the long-term supply of it. This dynamic should produce sustained growth in rental rates and, thus, property values. The MacNicol Investment Team strongly believes the opportunity exists to acquire industrial properties located in select southeastern markets that will offer our investors both a strong current yield and capture the long-term capital appreciation from these transformative demographic, consumption, and inventory management changes. If we could use the analogy of "Investor A" requiring income now and "Investor B" requiring income later, industrial real estate is one of the few investment classes that is adequately equipped to meet the requirements of both investors.

Office: As the pandemic enters year 2, office market fundamentals have shifted yet again. Before we get to the primary drivers of office, we wish to share an incredibly informative analysis conduct by one of our commercial finance partners, Jay Rollins. Jay is the founder of JCR Capital, which was purchased by Walker Dunlop. Jay

Retail. Retail real estate continues to be in a difficult spot mainly due to the "wait and see" stance taken by many businesses as lease terms mature. Ultimately as a landlord, your biggest risk is owning a retail asset is a large tenant is leaving. An example of this might be a plaza you own that is anchored by Staples. If Staples' lease is maturing, your absolute biggest "top of mind" priority is determining whether Staples will stay or vacate. In most cases, tenants will take the aforementioned "wait and see" approach and potentially secure a short-term lease to ensure representation in a local sub-market. This is where aggressive leasing and valued-added measures come into play. As the property owner in this example, your pro-forma NOI [Net Operating Income] can in fact come reasonably close to the target you seek to achieve even taking into consideration a large tenant like Staples vacating. Still our preference is to play retail from the safety of industrial assets that function as the pipeline for goods to local retailers and not as the landlord to the actual retailers. And, in cases where we have no choice by to accept retail exposure, it is important to do so in the context of either mixed use assets that offer residential quarters close to retail outlets or through more reliable anchor tenants, which in our minds would be things like a grocery store, pharmacy or bank.

Real Estate Portfolio: Activity & Cash Weight

During the 3rd quarter, the fund was active in exiting the limited group of publicly traded REITs it held during H1, 2021. New investor capital and distributions from older vintage investments added to cash proceeds received from REIT sales and resulted in a fairly high 20% cash weighting. As the fund has already begun to experience a greater frequency of capital calls in the fourth quarter, the Portfolio Manager does not expect the fund to end 2021 at as high a cash weighting as it did the third quarter. The fund was also active at making new investments during the third quarter, which we now comment on in greater detail.

First, in partnership with Venterra Realty, the 360 Fund became an investor in Retreat at Lakeland FL. Retreat is a 464-unit two-story garden style property, well located along the I-4 corridor in Lakeland, Florida.

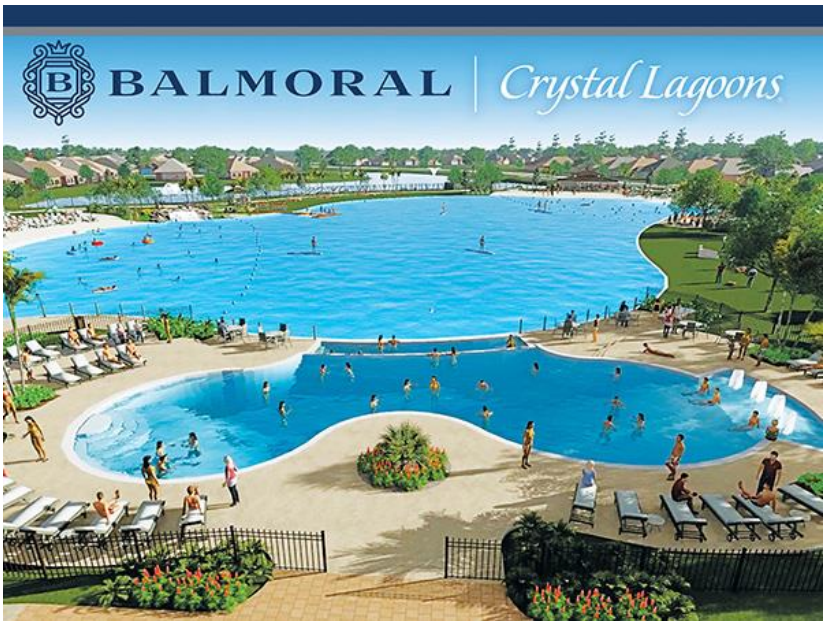
[Retreat at Lakeland, Lakeland, FLA.]

Lakeland is a suburban Florida sub-market East of Tampa and Southwest of Orlando, with several advantages to residential realty investors. Lakeland's location makes it a strategic logistics hub and companies such as: Publix, Ikea and Amazon all have significant logistical apparatus in the area. Publix, a Fortune 500 company, is headquartered in Lakeland as well. Lakeland was one of the first metro areas in the country to recover all the jobs lost during the pandemic and has experienced near unprecedented population growth over the last decade. The property's location along the I-4 provides residents with easy access to local job drivers and locations further afield, west towards Tampa and east towards Orlando. Retreat at Lakeland was acquired on an off-market basis, at a significant discount to both replacement cost and market value. We feel Retreat will achieve attractive risk-adjusted returns and the property should begin returning distributions to the fund in October.

The fund's next investment during the quarter was one in which we detailed briefly in the second quarter report: an equity investment in Balmoral Mortgage Corporation a new, private residential mortgage lender. The Portfolio Manager concluded analysis of Balmoral just as the 3rd quarter was kicking off, and the decision to investment was made shortly thereafter. Though our investment in Balmoral is a recent one, the fundamental shifts that caused former CIBC World Markets Loan Syndication Director Leon Dadoun to start Balmoral occurred several years prior. Following the Global Financial Crisis, OFSI began imposing minimum underwriting standards on banks that automatically disqualified certain borrowers, the so-called Regulation "B20". In June of 2020, the CMHC introduced further changes to the policies banks had to follow when underwriting a mortgage. Together, these policy shifts caused approximately $75 billion worth of mortgage borrowers to become "orphaned" or underserviced by traditional lenders. While the [vast] majority of these borrowers would have qualified for traditional bank funding prior to regulation "B20" and have now had to turn to private lenders and "MICs" Mortgage Investment Corporations.

The typical "MIC" however does not have access to large scale institutional funding that Balmoral has and therefore has to "endure" funding costs of 6.5%. Equally as important is the fact that we are not aware of *any* direct competitor to Balmoral at the present time with the level of institutional funding Balmoral was able to secure, which results in the fund securing an equity stake in a firm with "first mover advantage".

Finally, the fund made a follow-on investment in a land banking program run by CBA Land Capital, with whom the fund has been a previous investor for several years. Managing Partners Paul O'Connor and Philip Guyton are well known to the MacNicol Investment Team, and we are very confident about CBAs affiliation with developer Land Tejas.



[Real estate developer Land Tejas is one of the State of Texas' top residential developers and together with established home builders like Lennar and Castlerock, are working to bring to market communities like Balmoral Crystal Lagoons (No relation to Balmoral Mortgage Corporation)].

Top rated Texas developer, Land Tejas is securing final entitlements for approximately 843 lots for the ~ 400-acre initial phase of the project. Engineering, including finalizing the drainage plan and development agreement, will be completed following acquisition of the property. The Portfolio Manager expects the project to begin breaking ground in the next 3-6 months to develop all 843 lots ("Phase I and II"). This project is located southwest of Rosenberg on Interstate 69 in the rapidly growing Ft Bend County.

Similar to other Land Tejas communities, we anticipate well-known homebuilders such as Lennar Homes and Castlerock, but also: Westin Homes, Perry Homes, Colina Homes, and Gehan Homes to secure lot positions in this project.

Ranking	Community	For Sale Starts	For Rent Starts	Total Starts
1	Bridgeland	836		836
2	Tamarron	832		832
3	Balmoral	770	189	959
4	Sienna	750		750
5	Breckenridge Forest	564		564
6	Sierra Vista / Sterling Lakes	530		530
7	Elyson	519		519
8	Cross Creek Ranch	499		499
9	Lakeview Retreat	491		491
10	Ventana Lakes	465		465
11	Meridiana	464		464
12	Jasmine Heights	451		451
13	Marcello	448		448
14	Veranda	428		428
15	The Groves	427		427
16	Aliana	418		418
17	Fosters Ridge	416	62	478
18	Woodforest	405		405
19	Lago Mar	394		394
20	Towne Lake	390		390

[“Things are bigger in Texas” is not an exaggeration when it comes to residential sales starts. This data table from consultancy Zonda, ranks local communities in the greater Houston area by sales start. The 360 Degree Fund is already an existing investor in the region, and with this latest investment, the Fund established a preferred equity stake in a development track of land 45 minutes Southwest of downtown Houston.]

During the third quarter the fund also capitalized on distributions from existing investments, including a distribution from our partners at 13th Floor Investments. Proceeds for this distribution were primarily generated from the final liquidation of the Avalon townhome parcel, as well as the Fresenius facility exit.

[In early 2018, 13th Floor began working alongside Fresenius Medical Care Holdings to develop a build-to-suit distribution facility in Knoxville, Tennessee for the company's distribution and logistics subsidiary, TruBlu Logistics.]

[13th Floor Investments issued a mortgage secured by a 108-acre non-operational golf course in Delray Beach, Florida in April 2018. Avalon Trails is a 55+ active-adult style community. The project consists of 217 single-story villas and features an approximately 13,000 square foot clubhouse and amenity campus. Sales for the project commenced in Q4 2019.]

Real Estate: Closing Remarks

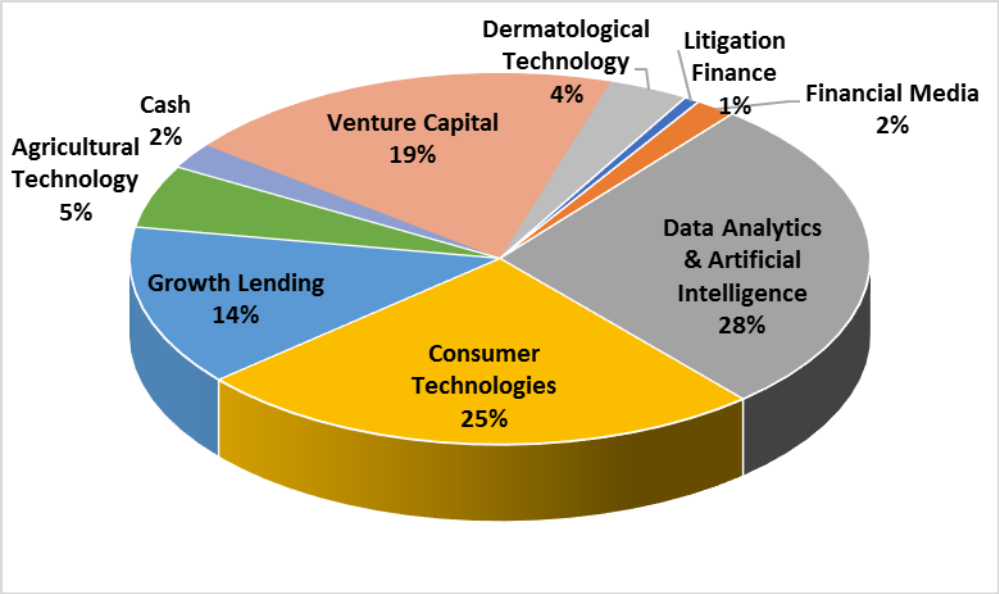
Despite the ongoing challenges posed by the fallout of the COVID 19 pandemic, very little of the fundamental rationale behind making high-quality, institutional real estate investments has changed and we feel very confident in the fund's ability to provide investors with exposure to real estate transactions that they may not have the means or technical expertise to execute individually. Though the temptation to "chase" assets exists, our time-tested process and rigorous discipline keep our approach focused on only those projects and partnerships that are deemed to add value to investors. Along with that comes the realization that the largest risk to real estate is not a change in interest rates, lending requirements or the delta variant of COVID, but rather, exit cap rates. For this reason and others, more of the funds recent investments will begin producing cash flows almost immediately or, result in pre-sold land parcels that will accrue and become payable to the fund on closing.

We look forward to updating you on the Fund's progress in 90 days.

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 and which are quantified by their allocations in Chart 6.

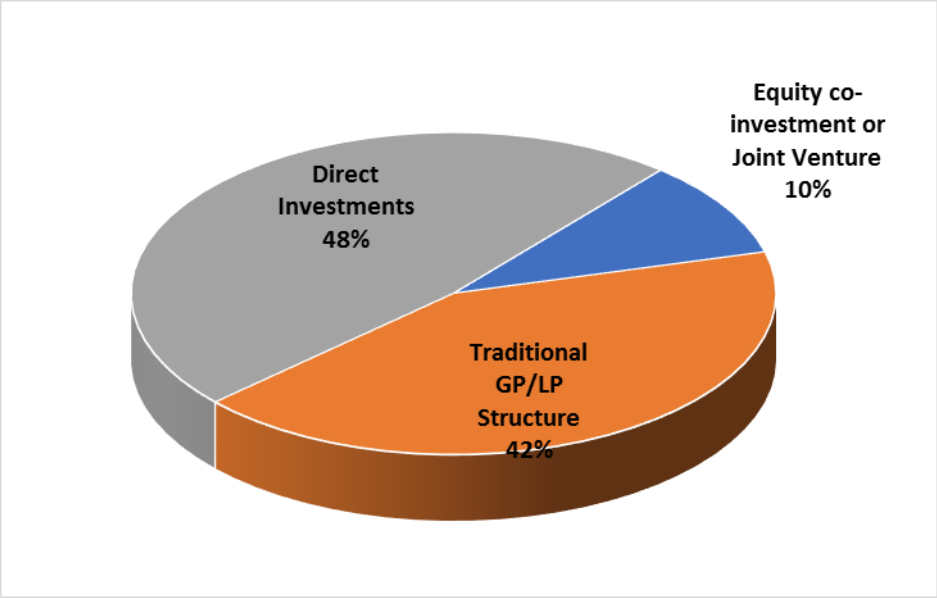
Chart 6 – Emergence Fund Sector Allocation, September 30th, 2021



During the third quarter of 2021, our Emergence Private Equity Fund was lower by roughly 2%. Partnerships in late-stage venture capital, data analytics and private equity secondaries were stronger during the quarter but were offset by weakness in consumer products.

During the third quarter, the fund's mix of direct, joint venture and traditional fund investments was little changed as described in Chart 7 on the following page.

Chart 7 – Emergence Fund Investment Vehicle Mix, September 30th, 2021



Private Equity Portfolio: Activity

During the quarter, the Portfolio Manager concluded diligence on a new opportunity with OverBay Capital Partners and received an update on its small position in the litigation finance area Jurissa Financial. Jurissa indicated that they will be meeting with the Commissioner of the Office of the Commissioner of Financial Institutions [OCIF] of Puerto Rico for in-person, final discussions to organize as a bank that will fund litigation. Importantly, it is widely expected that the company will receive permission to organize prior to the end of 2021 as this meeting is a final stage meeting to go over requirements. Once that process has been finalized, the company expects to go to market with a Series B offering that will raise capital at a premium to the Emergence Fund's Series A shares.

During the quarter, the Portfolio Manager spent considerable time reviewing partnership holdings in applied artificial intelligence and digital payments companies. Of particular interest to investors is the sizing and often cash nature of transactions occurring in these areas. Just prior to the start of the third quarter, Rockwell Automation [NYSE:ROC] expanded to acquire industrial cloud software specialist Plex Systems for $2.2 billion in cash.

A growing dilemma for manufacturers is the urgent need to increase production and improve resilience, while driving efficiency and compliance. Companies are increasingly seeking to upgrade their production systems with modern, cloud-based manufacturing execution systems that are easy to implement, use, and maintain. Plex's platform helps customers to connect, automate, track, and analyze their operations and connected supply chains.

[Plex is one of the world's leading Saas based smart manufacturing platforms that allows businesses to optimize: manufacturing execution, supply chain visibility and quality controls.]

In a second high-tech, and large, transaction, Global Payments (NYSE:GPN) purchased real estate technology firm Zego for $830 million in cash. Global Payments (GPN:NYSE) is one of the world's leading payment technology firms. Zego specializes in resident experience solutions and digital payment solutions to property managers mainly in the United States.

Many of the Emergence Fund's investment partnerships focus on the areas of applied artificial intelligence, global payments and [as we will update next quarter] cyber security. Each one of these areas, in our opinion, are rapidly becoming "core" technology holdings that are difficult to obtain through conventional public equity vehicles. This of course means that we are confident in the present valuations of these partnerships and businesses, but eager for what the future holds in store for them and for investors.

Hedge Funds: MacNicol Absolute Return Fund

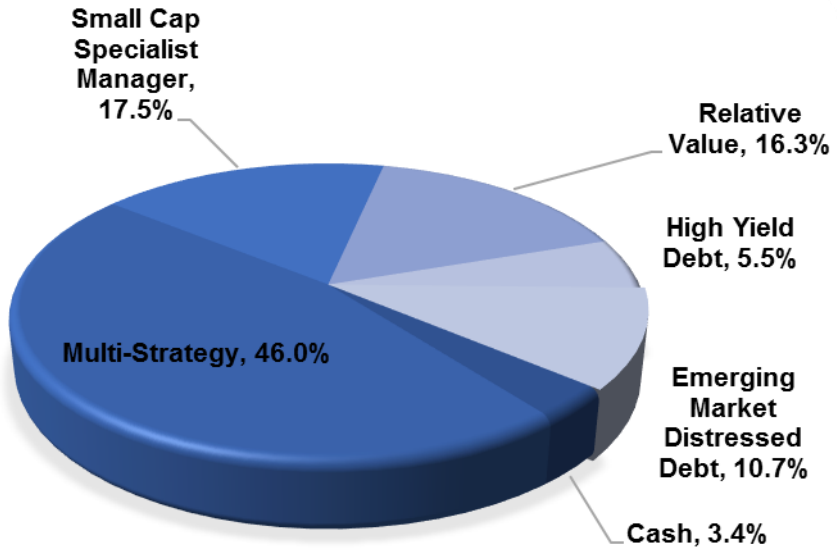
The objective of the MacNicol Absolute Return Fund is to generate positive returns under most market and economic conditions, and to have little or no correlation to the US and Canadian stock markets. During the third quarter of 2021, the fund was higher by 0.8%.
During the quarter, the ongoing vaccine rollout was balanced by: a) a slowing of the pace at which the remainder of the population gets vaccinated b) concerns over the new delta variant of COVID c) the potential for a Central Bank error in determining the timing of interest rate policy normalization d) contagion fears in high yield debt markets due to the ongoing missed interest rate payments of Asia's second largest real estate developer Evergrande Group and e) to a lesser extent the overall mode of US debt ceiling talks.

[A lot of investors care what Harris Kupperman has to say. Our friends at MacNicol portfolio company RealVision do as well. Like many of us, Kupperman believes that a maturation of the current day investment cycle will usher in a new wave of investors seeking active management.]

During the quarter the fund examined four key focus areas: flexibility, concentration, alpha inflection points and unhedged active managers. In our view, and to a considerable extent here in Canada, hedge funds have become over institutionalized, underperforming, pseudo mutual funds with very high fees. What's more, the nearly religious obsession with trying to fit into a particular style box in the name of raising institutional capital has meant a defacto performance drag and mandates that are – more and more – becoming go to investments for high-net-worth individual Canadians.

Therefore, the decision was made to add more in the way of bottom-up expertise to the fund with the addition of the Praetorian Capital Offshore fund. More than just a way to broaden out the gap between active and passive investing, Praetorian eschews style boxes and allows for security selection to tell the macro narrative rather than being held accountable to it. CEO Harris Kupperman has been a known manager to the fund for years, and we have had the opportunity to sit down with Kupperman in person on numerous occasions. With broad-based, systematic "generalist" approaches to equities well into their late innings, the addition of a fund program run by Kupperman is something we look forward to monitoring in the coming years.

Chart 8 – Absolute Return Fund Investment Strategy Mix, Sept 30th, 2021



Absolute Return Fund: Activity

As indicated previously, the lone net new addition to the fund in the quarter was Harris Kupperman's offshore strategy. The balance of the fund's activity during the quarter consisted of allocating new investment capital to existing strategies, and in assessing the overall health of the fund as a passport for the future.

Closing Comments

Though the temptation to "chase" an investment opportunity always exists our time-tested safe harbor approach to investment ensures you and your family will be protected from not just the risk of losing capital but the risk of not ultimately realizing your return expectations. As 2021 enters its swan song quarter, the MacNicol Alternative Asset Trust is well positioned to capitalize on opportunities domestically and abroad, and we look forward to updating you on our progress for you at the end of the year.

As always, our entire team is dedicated to helping you ensure that your capital works as hard and is as smart as you are. For more about the MacNicol Alternative Asset Trust or the services we offer to private investors please feel free to contact us at toll free: 1 866 367 3040.

MacNicol & Associates Asset Management Inc.
September 2021