

APPENDIX 4E

Annual Report
For the year ended 31 December 2016

Name of entity: Alternative Investment Trust ("AIT")

1 REPORTING PERIOD AND PREVIOUS CORRESPONDING PERIOD

Current Reporting Period:	12 months to 31 December 2016
Previous Corresponding Period:	12 months to 31 December 2015

2 RESULTS FOR ANNOUNCEMENT TO THE MARKET

	2016 (\$000)	2015 (\$000)
2.1 Revenue from ordinary activities	Down >100% to (1,299)	1,279
2.2 Profit (loss) from ordinary activities after tax attributable to unitholders*	Down >100% to (2,203)	293
2.3 Net profit (loss) for the period attributable to unitholders *	Down >100% to (2,203)	293

*excludes loss attributable to minority interest

	2016		2015	
	Amount per security	Tax deferred	Amount per security	Tax deferred
2.4 Distributions:	-	-	-	-
Final distribution	-	-	-	-
Interim distribution	-	-	-	-

2.5 Record date for determining entitlements to the final 2016 distribution - 31 December 2016
No distribution was declared or paid for the year ended 31 December 2016 (31 December 2015: \$nil)

2.6 An explanation of results is indicated on page 2 of the annual financial report and also included in the Investment Manager's report included in the annual financial report

7 DETAILS OF INDIVIDUAL AND TOTAL DIVIDENDS OR DISTRIBUTIONS AND DIVIDEND OR DISTRIBUTION PAYMENTS

No distribution was declared or paid for the year ended 31 December 2016 (31 December 2015: \$nil)

8 DETAILS OF ANY DIVIDEND OR DISTRIBUTION REINVESTMENT PLANS IN OPERATION

Not applicable

9 NET TANGIBLE ASSETS PER SECURITY

NTA per security as at 31 December 2016 (Ex distribution) \$0.11
NTA per security as at 31 December 2015 (Ex distribution) \$0.14

10 DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD

AIT did not gain or lose control over any entities during the year ended 31 December 2016

11 DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

Not applicable

12 ANY OTHER SIGNIFICANT INFORMATION NEEDED BY AN INVESTOR TO MAKE AN INFORMED ASSESSMENT OF THE ENTITY'S FINANCIAL PERFORMANCE AND FINANCIAL POSITION

Refer to the annual financial report and notes attached thereto

13 FOR FOREIGN ENTITIES, WHICH SET OF ACCOUNTING STANDARDS IS USED IN COMPILING THE REPORT

Not applicable

14 COMMENTARY ON RESULTS

An explanation of results is indicated on page 2 of the annual financial report and also included in the Investment Manager's report included in the annual financial report.

Additional Appendix 4E disclosure requirements can be found in the notes to the financial report for the year ended 31 December 2016.

This report is based on the annual report of AIT which has been subject to an audit by Ernst & Young.

Alternative Investment Trust

ARSN 112 129 218

**Financial Report for the Year Ended
31 December 2016**

Contents

	Page
DIRECTORS' REPORT	1
CORPORATE GOVERNANCE STATEMENT	6
INVESTMENT MANAGER'S REPORT	10
AUDITOR'S INDEPENDENCE DECLARATION	14
STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME	15
STATEMENT OF FINANCIAL POSITION	16
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	17
STATEMENT OF CASH FLOWS	18
NOTES TO THE FINANCIAL STATEMENTS	19
DIRECTORS' DECLARATION	39
INDEPENDENT AUDITOR'S REPORT	40
UNITHOLDER INFORMATION	44
OTHER INFORMATION	46

DIRECTORS' REPORT

The Directors of The Trust Company (RE Services) Limited (the "Responsible Entity"), the Responsible Entity of Alternative Investment Trust ("AIT"), present their report together with the financial report of AIT for the year ended 31 December 2016.

RESPONSIBLE ENTITY

The Responsible Entity of AIT is The Trust Company (RE Services) Limited (ABN 45 003 278 831; AFSL 235150). The registered office and principal place of business of the Responsible Entity is Level 18, 123 Pitt Street, Sydney, NSW 2000. The Responsible Entity is a wholly owned subsidiary in the Perpetual Limited Group (ASX: PPT).

Investment Manager

Laxey Partners (UK) Ltd ("Laxey" or the "Investment Manager") is the Investment Manager of AIT.

Directors of the Responsible Entity

The Directors of The Trust Company (RE Services) Limited, during the whole of the year and until the date of this report (unless otherwise stated) were:

Andrew Cannane

Christopher Green

Michael Vainauskas

Glenn Foster

Rodney Garth Ellwood (Alternate Director for each of Andrew Cannane and Christopher Green)

Vikki Riggio (Appointed Alternate Director for Andrew Cannane on 1 November 2016)

Neil Wesley (Appointed Alternate Director for Glenn Foster on 13 January 2017)

Andrew Mclver (Appointed Alternate Director for Michael Vainauskas on 13 January 2017)

PRINCIPAL ACTIVITIES

AIT is a registered managed investment scheme domiciled and registered in Australia and listed on the ASX [AIQ]. AIT has exposure to a portfolio of absolute return funds via a swap agreement with Macquarie Bank Limited (the "Swap").

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

AIT is currently in a process of asset realisation. During the year ended 31 December 2016, the Responsible Entity made one capital return totalling \$2.0 million (2015: \$5.2 million). From the date of appointment of Laxey and the Responsible Entity to 31 December 2016, capital of \$232.1 million (2015: \$230.1 million) was returned to shareholders.

On 12 September 2016, a meeting of members of AIT took place where members voted in favour of a change in Responsible Entity to One Managed Investment Funds Limited. As of the date of this report the Responsible Entity has not changed as the Australian Securities & Investments Commission (ASIC) has not yet updated its register.

Other than as noted above in the opinion of the Directors of the Responsible Entity, there were no significant changes in the state of affairs of AIT that occurred during the financial year.

REVIEW AND RESULTS OF OPERATIONS

During the year, AIT continued to engage in its principal activities being asset realisation, the results of which are disclosed in the attached financial statements.

A more detailed review of AIT's performance and of its operations is included in its Investment Manager's Report starting on page 10.

OPERATING AND FINANCIAL REVIEW

The results of AIT, as represented by the results of its operations, were as follows:

	Year ended	
	31 December 2016 \$'000	31 December 2015 \$'000
Change in net assets attributable to unitholders	(2,203)	293

VALUE OF ASSETS AND UNITS ISSUED

The total value of AIT's assets as at year end is \$14,177,000 (2015: \$18,388,000). The total number of units issued as at 31 December 2016 is 130,692,470 (2015: 130,692,470).

DISTRIBUTION/RETURN OF CAPITAL

There was one return of capital during 2016 of \$2.0 million (2015: \$5.2 million).

RISK MANAGEMENT

The Investment Portfolio is in "run-off" and this process has been managed so as to provide the maximum amount of cash to unitholders over as short a time period as is deemed prudent and within the context of firstly having repaid the leverage facility provided by Macquarie Bank Limited. As such, the Investment Manager, together with Macquarie Bank Limited, monitors the liquidity profile and redemption terms of each investment. All holdings that may be redeemed are in the process of being redeemed, with some positions subject to lock ups, illiquid side pocket arrangements (a type of account used to separate illiquid assets from other more liquid investments) or a queuing process. Once an investment enters a side pocket account, only the present unitholders in that investment fund will be entitled to a share of it. Future investors of that investment fund will not receive a share of the proceeds in the event that the asset's returns are realised. Full commentary on this process may be found in the Investment Manager's Report on page 10.

AIT is exposed to credit risk, foreign exchange risk, interest rate risk, market price risk and liquidity risk arising from the financial instruments it holds. The risk management policies employed to manage these risks are discussed below.

(a) Credit risk

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract and cause AIT to incur a financial loss.

DIRECTORS' REPORT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

In relation to derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. This risk is minimised by ensuring counterparties, together with the respective credit limits, are assessed and approved. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the Statement of Financial Position.

(b) Liquidity and cash flow risk

Liquidity risk is the risk that AIT will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments or satisfy creditors' concerns of AIT. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate. The Investment Manager manages the cash flow risk by preparing monthly cash flow forecasts to ensure that upcoming commitments can be met by AIT, as and when they fall due.

(c) Market price risk

Market price risk is the risk that the value of AIT's investment portfolio will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates and equity prices or will be adversely affected as a result of market illiquidity. This risk is managed by ensuring that all activities are transacted in accordance with investment guidelines. AIT is subject to the restrictions set out under the Swap agreement with Macquarie Bank Limited.

(d) Foreign exchange risk

AIT is exposed to foreign exchange risk as a result of investments in financial instruments denominated in foreign currencies, including the Swap which is denominated in US dollars. AIT has exposure to foreign currency risk implicit in the value of portfolio securities denominated in a foreign currency and transactional exposure arising from the purchase or sale of securities. The Investment Manager and Responsible Entity have not hedged AIT's exposure to the US dollar; however when funds are available in the swap, these are converted from US dollars into Australian dollars and transferred to AIT's Australian dollar denominated bank account.

(e) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. AIT has exposure to interest rate risk with respect to the cash balance held at year end.

INVESTMENT AND LEVERAGE GUIDELINES

AIT is no longer permitted to:

- Add any new investments to the Underlying Investment Portfolio (irrespective of whether such investments are within or outside the scope of the former investment guidelines);
- Increase the amount invested in investments that already form part of the Underlying Investment Portfolio; and
- Obtain additional leverage for the purpose of increasing the value of the Underlying Investment Portfolio.

DIRECTORS' REPORT (CONTINUED)

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Responsible Entity advises that Laxey is managing AIT according to AIT's strategy to undertake an orderly wind down of AIT for the realisation of assets with a view to optimising the return on investments to unitholders.

Distributions

The Directors of the Responsible Entity will continue to make distributions/returns of capital when there are sufficient cash reserves to do so. In making its decision whether to make a distribution the Directors of the Responsible Entity have regard to:

- the current cash reserves of AIT;
- the timing of known future redemptions;
- whether it is cost effective to make a distribution (i.e. whether the cost savings that may be achieved post distribution exceed the costs associated with making a distribution); and
- recommendations from the Investment Manager.

The results of AIT's operations will be affected by a number of factors, including the performance of investment markets in which AIT has invested. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of AIT and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to AIT.

INTERESTS OF DIRECTORS OF THE RESPONSIBLE ENTITY

The Directors of the Responsible Entity did not hold any interest in AIT as at 31 December 2016 (2015: no interest held).

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

No insurance premiums are paid out of AIT in regards to insurance cover for either the Responsible Entity or the auditors of AIT. So long as the Directors and officers of the Responsible Entity and its Compliance Committee act in accordance with the Constitution and Corporations Act, the Directors and officers remain indemnified out of the assets of AIT against losses incurred while acting on behalf of AIT. The auditors of AIT are in no way indemnified out of the assets of AIT.

RESPONSIBLE ENTITY/INVESTMENT MANAGER TRANSACTIONS

As at 31 December 2016, the Responsible Entity had no interest in AIT (2015: nil).

Fees paid and payable to the Responsible Entity and the Investment Manager during the year were as follows:

	2016	2015
	\$	\$
Responsible Entity fees	83,600	83,600
Investment Manager fees	120,352	154,437

DIRECTORS' REPORT (CONTINUED)

RESPONSIBLE ENTITY/INVESTMENT MANAGER FEES

The Responsible Entity charges 0.1% of average gross assets per annum, subject to a minimum of \$80,000 per annum as Responsible Entity fees (excluding GST).

The Investment Manager receives fees equal to the lower of AUD200,000 or 0.75% of the value of gross assets of AIT with no distribution fees. These fee arrangements are subject to both the overall fee cap of 1.25% per annum of the value of gross assets of AIT and the Responsible Entity fee of AUD80,000. The Responsible Entity Fees and Investment Manager's Fees in total are not to exceed 1.25% per annum of gross assets.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There has not been any matter or circumstance that has arisen since 31 December 2016 that has significantly affected or may significantly affect:

- (i) the operations of the entity in future financial periods, or
- (ii) the results of those operations in future financial periods, or
- (iii) the state of affairs of the entity in future financial periods.

ENVIRONMENTAL REGULATION

The operations of AIT are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

NON-AUDIT SERVICES

Ernst & Young continues as AIT's Auditor.

There were no non-audit services performed by the auditor in the current financial year.

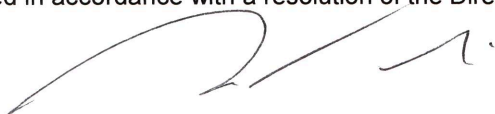
ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

AIT is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the Directors' Report and Annual Financial Report. Amounts in the Directors' Report and Annual Financial Report have been rounded to the nearest thousand dollars in accordance with that legislative instrument, unless otherwise indicated.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

Signed in accordance with a resolution of the Directors of the Responsible Entity.



Director
Sydney, 27 February 2017

CORPORATE GOVERNANCE – RESPONSIBLE ENTITY

Background

The Trust Company (RE Services) Limited (“Responsible Entity”) is the responsible entity for the Alternative Investment Trust (“Trust”), a registered managed investment scheme that is listed on the Australian Securities Exchange (“ASX”).

The Responsible Entity is a wholly-owned subsidiary of Perpetual Limited (ASX: PPT) (“Perpetual”).

The Responsible Entity is reliant on Perpetual for access to adequate resources including directors, management, staff, functional support (such as company secretarial, responsible managers, legal, compliance and risk, finance) and financial resources. During the year and up to the date of this report, Perpetual has at all times made such resources available to the Responsible Entity.

In operating the Trust the Responsible Entity’s overarching principle is to always act in good faith and in the best interests of the Trust’s unitholders, in accordance with our fiduciary duty. The Responsible Entity’s duties and obligations in relation to the Trust principally arise from: the Constitution of the Trust; the Compliance Plan for the Trust; the Corporations Act 2001 (“Act”); the ASX Listing Rules; the Responsible Entity’s Australian Financial Services License; relevant regulatory guidance; relevant contractual arrangements; and other applicable laws and regulations.

Corporate governance

At Perpetual, good corporate governance includes a genuine commitment to the ASX Corporate Governance Council Principles and Recommendations (ASX Principles).

The Directors of the Responsible Entity are committed to implementing high standards of corporate governance in operating the Trust and, to the extent applicable to registered schemes, are guided by the values and principles set out in Perpetual’s Corporate Responsibility Statement and the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (“Principles”). The Responsible Entity is pleased to advise that, to the extent the Principles are applicable to registered schemes; its practices are largely consistent with the Principles.

As a leading independent responsible entity, the Responsible Entity operates a number of registered managed investment schemes (“Schemes”). The Schemes include the Trust as well as other schemes that are listed on the ASX. The Responsible Entity’s approach in relation to corporate governance in operating the Trust is consistent with its approach in relation to the Schemes generally.

The Responsible Entity addresses each of the Principles that are applicable to externally managed listed entities in relation to the Schemes, including the Trust, for the year ended 30 June 2016. This corporate governance statement is current as at the date of the Trust’s financial report and has been approved by the Responsible Entity board.

Principle 1 – Lay solid foundations for management and oversight

The role of the Responsible Entity’s Board (“RE Board”) is generally to set objectives and goals for the operation of the Responsible Entity and the Schemes, to oversee the Responsible Entity’s management, to regularly review performance and to monitor the Responsible Entity’s affairs acting in the best interests of the unitholders of each of the Schemes. The RE Board is accountable to the unitholders of each of the Schemes, and is responsible for approving the Responsible Entity’s overall objectives and overseeing their implementation in discharging their duties and obligations and operating the Schemes.

CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)

Principle 1 – Lay solid foundations for management and oversight (continued)

The role of the Responsible Entity’s management is to manage the business of the Responsible Entity in operating the Schemes. The RE Board delegates to management all matters not reserved to the RE Board, including the day-to-day management of the Responsible Entity and the operation of the Schemes. Directors, management and staff are guided by Perpetual’s Code of Conduct which is designed to assist them in making ethical business decisions.

Principle 2 – Structure the board to add value

At present the RE Board consists of four executive directors and four alternate directors. The names of the current Directors and year of appointment is provided below:

Name of Director	Year of appointment
Andrew Cannane	2011
Christopher Green	2014
Michael Vainauskas	2015
Glenn Foster	2015
Rodney Garth Ellwood (Alternate)	2015
Vikki Riggio (Alternate)	2016
Neil Wesley (Alternate)	2017
Andrew Mclver (Alternate)	2017

As the RE Board consists of only executive directors, a Compliance Committee is appointed in relation to each of the Schemes (refer to Principle 4). The Committee a majority of independent members and is chaired by an independent member who is not the chair of the RE Board

Principle 3 – Promote ethical and responsible decision-making

The Responsible Entity has a Code of Conduct and espoused Core Values and a further values framework known as the “Way we Work” within which it carries on its business and deals with its stakeholders. These apply to all directors and employees of Perpetual, and the Responsible Entity. The Code of Conduct and Core Values supports all aspects of the way the Responsible Entity conducts its business and is embedded into Perpetual’s performance management process. The Code of Conduct is available on Perpetual’s website (www.perpetual.com.au).

Principle 4 – Safeguard integrity in financial reporting

The functions of an audit committee are undertaken by the full board of the RE with assistance from RE’s management.

The declarations under section 295A of the Corporations Act 2001 (the Act) provide formal statements to the RE Board in relation to the Trust (refer to Principle 7). The declarations confirm the matters required by the Act in connection with financial reporting. The Responsible Entity receives confirmations from the service providers involved in financial reporting and management of the Trust, including the Investment Manager, which assist its staff in making the declarations provided under section 295A of the Act.

The Responsible Entity manages the engagement and monitoring of independent ‘external’ auditors for the Trust. The RE Board receives periodic reports from the external auditors in relation to financial reporting and the compliance plans for the Trust.

CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)

Principle 5 – Make timely and balanced disclosure

The Responsible Entity has a continuous disclosure policy to ensure compliance with the continuous disclosure requirements of the Act and the ASX Listing Rules in relation to the Trust. The policy requires timely disclosure of information to be reported to the Responsible Entity's management and/or Directors to ensure that, information that a reasonable person would expect to have a material effect on the unit price or would influence an investment decision in relation to any of the Schemes, is disclosed to the market. The Responsible Entity's Company Secretary assists management and/or the Directors in making disclosures to the ASX after appropriate RE Board consultation. The Responsible Entity requires service providers, including the Investment Manager, to comply with its policy in relation to continuous disclosure for the Schemes.

Principle 6 – Respect the rights of unitholders

The Responsible Entity is committed to ensuring timely and accurate information about the Trust is available to security holders via the Trust's website. All ASX announcements are promptly posted on the Trust's website: www.thealternativeinvestmenttrust.com. The annual and half year results financial statements and other communication materials are also published on the website.

In addition to the continuous disclosure obligations, the Responsible Entity receives and responds to formal and informal communications from unitholders and convenes formal and informal meetings of unitholders as requested or required. The Responsible Entity has an active program for effective communication with the unitholders and other stakeholders in relation to Trust.

The Responsible Entity handles any complaints received from unitholders in accordance with Perpetual's Complaints Handling Policy. The Responsible Entity is a member of the Financial Ombudsman Service, an independent dispute resolution body, which is available to unitholders in the event that any complaints cannot be satisfactorily resolved by the Responsible Entity in relation to the Trust.

Principle 7 – Recognise and manage risk

The RE values the importance of robust risk management systems and maintains a current risk register as part of its formal risk management program. The RE has established a Compliance Committee, comprised of Michael Vainauskas, Michelene Collopy and Virginia Malley. The Compliance Committee meets at least quarterly. In 2016 all four meetings held were attended by all Compliance Committee members. The Compliance Committee Charter sets out its role and responsibilities, which is attached to this statement. The Compliance Committee is responsible for compliance matters regarding the RE's Compliance Plan and Constitution and the Corporations Act. Perpetual's Audit, Risk and Compliance Committee is responsible for oversight of the Perpetuals risk management and internal control systems. The Audit, Risk and Compliance Committee is comprised of Ian Hammond (Chair), Philip Bullock, Nancy Fox and Craig Ueland. In 2016 there were seven meetings held which were attended by all members. The Audit, Risk and Compliance Committee terms of reference sets out its role and responsibilities. This can be obtained on the Perpetual website. The majority of the Compliance Committee and the Audit, Risk and Compliance Committee members are independent. They are chaired by independent members.

The RE manages the engagement and monitoring of independent external auditors for the Trust. The RE board receives periodic reports in relation to financial reporting and the compliance plan audit outcomes for the Trust.

Perpetual has a risk management framework in place which is reviewed annually. The declarations under section 295A of the Act provide assurance regarding sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The RE also receives appropriate declarations from the service providers involved in financial reporting.

CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)

Principle 7 – Recognise and manage risk (continued)

Perpetual has an internal audit function which reports to Perpetual’s Audit and Risk Compliance Committee, and for administrative purposes, the Perpetual Chief Risk Officer and is independent from the external auditor. Perpetual’s Audit and Risk Compliance Committee reviews the annual Internal Audit Plan and also reviews reports issued by the Head of Internal Audit.

Given that the Trust is in wind-up and is solely exposed to funds undergoing full or significant liquidation and side pocket positions, there is no material exposure to economic environmental and social sustainability risks.

Principle 8 – Remunerate fairly and responsibly

The fees and expenses which the RE is permitted to pay out of the assets of the Trust are set out in the Trust constitution. The Trust financial statements provide details of all fees and expenses paid by the Trust during the financial period.

Investment Manager's Report

Background

The investment portfolio of Alternative Investment Trust ("AIT") primarily consists of exposure to a basket of absolute return funds via a swap agreement with Macquarie Bank ("the Macquarie Swap"). In January 2009, a unitholder vote determined that the fund should pursue an orderly wind up under a new Investment Manager, Laxey Partners (UK) Ltd ("Laxey") – formally appointed manager on 23 February 2009 – and a new Responsible Entity, The Trust Company (RE Services) Limited, part of Perpetual Limited. Since that date, adding back the AUD 1.775 per unit or AUD 232m of distributions paid, AIT's share price has risen by 108% (23 February 2009 to 31 December 2016). Laxey is a part of Isle of Man based Laxey Partners Ltd. Laxey Partners Ltd was founded in 1998 as a globally active management company and manages a range of assets and funds for institutional investors. As part of the new mandate, the name of the fund was changed from Everest, Babcock & Brown Alternative Investment Trust

to Alternative Investment Trust. AIT is no longer permitted to add any new investments to the Underlying Investment Portfolio, increase the amount invested in investments that already form part of the Underlying Investment Portfolio; and obtain additional leverage for the purpose of increasing the value of the Underlying Investment Portfolio. In order to make distributions from investments redeemed within the Macquarie Swap, AIT was required to repay the associated debt. This repayment was completed in August 2010, and AIT has since been free to make distributions to unitholders once sufficient cash has built up.

Distributions to Unitholders:

A single distribution was made in 2016 - returning AUD 2m (or AUD 0.015 per unit) to unitholders in July. This brings the total distributions made to unitholders since the change of mandate to AUD 232m (or AUD 1.775 per unit) – representing approximately 173% of AIT's market value as at 31 January 2009 (or 78% of its unaudited net assets at that date).

Trust Facts

(As at 31 December 2016)

- Gross Assets (GA): AUD 14m
- Net Assets (NA): AUD 14m
- Market Cap: AUD 12m
- Units in Issue: 131m
- NTA / unit: AUD 0.107
- Leverage Ratio (GA / NA): 1.01
- Debt outstanding: USD 0
- % of GA in Illiquid Investments 57%

Capital Returns per unit:

- FY2016 Returns: AUD 0.015
- **Total Returns since Feb 2009: AUD 1.775**

AIT’s distribution in the twelve months under review was made using redemption proceeds from its underlying funds. These underlying funds – all of which are now side pockets or liquidating investments – continued to gradually realise their underlying investments and return the proceeds to AIT.

Fund Performance

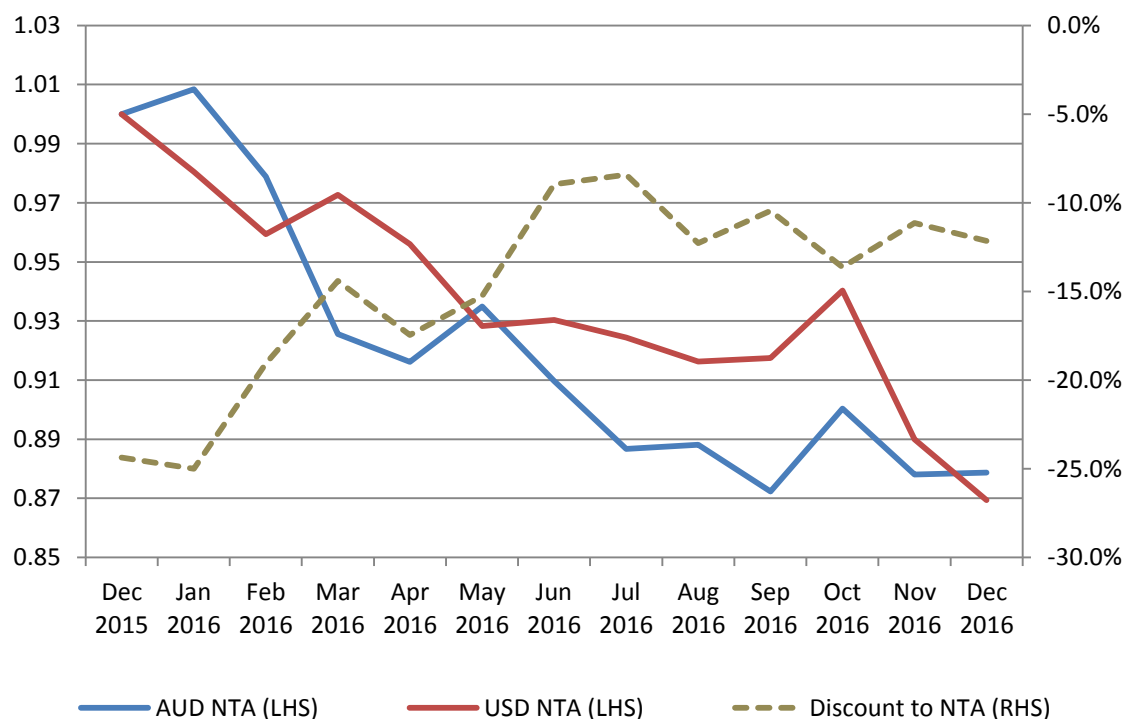
AIT’s NTA was AUD 0.107 on 31 December 2016. Adjusting for the return of capital paid during the twelve months, AIT’s NTA performance was -12.1% for FY 2016. Over the twelve months, the AUD weakened by 1.1% against the USD. As the majority of AIT’s net assets are USD denominated, this had a positive effect on AIT’s NTA – as can be seen from the performance comparison of NTA in USD and AUD terms.

At December end, AIT’s net currency exposure was 75% to USD reporting funds, assets and liabilities, and 25% to AUD reporting funds, assets and liabilities. Note that on a ‘look through’ basis, AIT’s exposure to both the USD and AUD may be overstated as there is no general policy amongst AIT’s underlying managers to hedge currency exposures of their investments to their reporting currency.

The AUD and USD NTA performance (NTAs rebased to 1 at 31 December 2015, and adjusted for the July 2016 return of capital, unaudited NTAs used for January to November), together with the discount performance of AIT from 31 December 2015 to 31 December 2016 is given below. AIT’s unit price to NTA discount remained between 8% and 30% for 2016. By way of comparison, AIT was trading at discounts of over 50% in late 2008 / early 2009.

NTA and Discount Performance

Dec 2015 - Dec 2016



AIT's Top Holdings as at 31 December 2016:

FUND NAME	STRATEGY	% OF GROSS ASSETS
TPG-Axon Partners Offshore Ltd	Multi-Strategy	12.3%
Eton Park Overseas Fund Ltd	Multi-Strategy	9.3%
Fortress Partners Fund LP	Multi-Strategy	7.6%
Marathon Special Opportunity Fund	Credit Related Investments	6.1%
Drawbridge Special Opportunities	Asset Based Lending	4.3%
Och-Ziff Asia Overseas Fund	Multi-Strategy	3.7%
Cerberus International Ltd	Distressed Securities	3.6%
Everest Absolute Return Fund	Multi-Strategy	2.7%
Och-Ziff Overseas Fund II	Multi-Strategy	2.2%
Farallon II Holdings LP	Multi-Strategy	1.8%
TOTAL		53.6%

All the above positions are held within the Macquarie Swap.

In December 2016, an offer was received to redeem a portion of the pooled investments. These investments were held in a secondary swap within the main Macquarie Swap; the secondary swap provider, BNP, offered to unwind the swap at current valuation; this was accepted and the swap was settled for USD 2m in cash just before year end. As the swap formed part of the pooled assets – held jointly with EAIT – approximately USD 1.5m came through to AIT.

Liquidity Profile and Side Pocket Positions

Now that all the fixed redemption date funds have redeemed, AIT is solely exposed to funds undergoing full or significant liquidation and side pocket positions. This means that redemption proceeds follow indicative rather than firm timeframes and are dependent on the underlying managers realising individual illiquid investments.

Liquidating funds are those which, because of large volumes of redemption requests, were forced to close, and realise assets, distributing proceeds to investors as they become available. This dependence on the realisation of assets such as these makes distributions less certain. The liquidating funds that had previously made regular returns of capital to AIT are now left with only the most illiquid of their holdings. The nature of these illiquid holdings makes distributions more ad hoc but the funds continue to pay out as cash becomes available to them.

Side pocket positions are esoteric and extremely illiquid investments that are made by an underlying investment manager from within an underlying fund and are treated as a separate account to the main fund. When a side pocket investment is made, all current investors in the main fund receive a pro rata share of the side pocket. Investors in the fund thereafter will not have exposure to that side pocket. Similarly, once an investor redeems their main fund position, they retain their side pocket exposure (until its realisation) but they do not gain exposure to any new side pocket positions. The liquidity of a side pocket position is tied to a particular investment and as such, shareholders must wait for the manager to realise this asset before receiving cash back. The liquidity date is often highly unpredictable; they tend to have 2-4 year horizons on initial investment, though in practice these positions can take significantly longer to reach full completion. In most cases, managers will not give specific liquidity dates for positions unless they are very close to realisation.

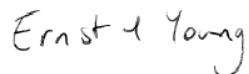
All of AIT's investments whether side pockets or liquidating funds should be considered highly illiquid; they are dependent upon specific underlying realisation of assets for any distribution to AIT. Together they represent 57% of gross assets.

The majority of the remainder of AIT's gross assets are now in cash – approximately AUD 6.2m. Of this, AUD 3.4m is held outside of the Macquarie Swap – that is, directly held by AIT.

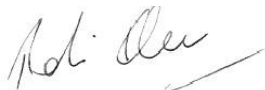
Auditor's Independence Declaration to the Directors of The Trust Company (RE Services) Limited

As lead auditor for the audit of Alternative Investment Trust for the financial year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



Ernst & Young



Rohit Khanna
Partner
Sydney
27 February 2017

Alternative Investment Trust
Statement of Profit or Loss and Comprehensive Income
For the year ended 31 December 2016

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

		Year ended	
	Notes	31 December 2016 \$'000	31 December 2015 \$'000
<i>Investment income</i>			
Net (loss)/gain on financial instruments held at fair value through profit or loss	5	(1,372)	1,180
Interest income		73	84
Other foreign exchange gain		–	15
Total investment (loss)/income	3	(1,299)	1,279
<i>Expenses</i>			
Responsible Entity fees	15	84	84
Laxey Management fees	15	120	154
Other operating expenses	4	700	748
Total operating expenses		904	986
Operating (loss)/profit attributable to unitholders		(2,203)	293
Change in net assets attributable to unitholders		2,203	(293)
Total comprehensive income		–	–
		Cents	Cents
<i>(Loss)/earnings per unit for (loss)/profit from continuing operations</i>			
Basic and diluted (loss)/earnings per unit	6	(1.69)	0.22

The above Statement of Profit or Loss and Comprehensive Income should be read in conjunction with the accompanying notes.

**Alternative Investment Trust
Statement of Financial Position
As at 31 December 2016**

STATEMENT OF FINANCIAL POSITION

		As at	
	Notes	31 December 2016 \$'000	31 December 2015 \$'000
Assets			
Cash and cash equivalents	9	3,418	3,759
Receivables	10	28	27
Financial assets at fair value through profit or loss	7	10,731	14,602
Total assets		14,177	18,388
Liabilities			
Payables	11	196	244
Total liabilities (excluding net assets attributable to unitholders)		196	244
Net assets attributable to unitholders		13,981	18,144
Represented by:			
Units on issue		391,001	392,961
Undistributed losses to unitholders		(377,020)	(374,817)
		13,981	18,144

The above Statement of Financial Position should be read in conjunction
with the accompanying notes.

Alternative Investment Trust
Statement of Changes in Net Assets Attributable to Unitholders
For the year ended 31 December 2016

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	Units on issue \$'000	Undistributed loss \$'000	Total \$'000
At 1 January 2016	392,961	(374,817)	18,144
Return of capital	(1,960)	–	(1,960)
Change in net assets attributable to unitholders	–	(2,203)	(2,203)
As at 31 December 2016	<u>391,001</u>	<u>(377,020)</u>	<u>13,981</u>

	Units on issue \$'000	Undistributed (loss)/income \$'000	Total \$'000
At 1 January 2015	398,188	(375,110)	23,078
Return of capital	(5,227)	–	(5,227)
Change in net assets attributable to unitholders	–	293	293
As at 31 December 2015	<u>392,961</u>	<u>(374,817)</u>	<u>18,144</u>

The above Statement of Changes in Net Assets Attributable to Unitholders should be read in conjunction with the accompanying notes.

**Alternative Investment Trust
Statement of Cash Flows
For the year ended 31 December 2016**

STATEMENT OF CASH FLOWS

	Notes	Year ended	
		31 December 2016 \$'000	31 December 2015 \$'000
<i>Cash flows from operating activities</i>			
Interest received		73	84
Payment of Management and Responsible Entity fees		(200)	(273)
Other expenses paid		(750)	(732)
GST (paid)\received		(3)	8
Net cash used in operating activities	8	(880)	(913)
<i>Cash flows from investing activities</i>			
Proceeds from sale of investments		2,499	4,415
Net cash provided by investing activities		2,499	4,415
<i>Cash flows from financing activities</i>			
Cash outflow through returns of capital		(1,960)	(5,227)
Net cash used in financing activities		(1,960)	(5,227)
Net decrease in cash and cash equivalents		(341)	(1,725)
Cash and cash equivalents at the beginning of the year		3,759	5,469
Effects of foreign currency exchange rate changes on cash and cash equivalents		–	15
Cash and cash equivalents at the end of the year	9	3,418	3,759

The above Statement of Cash Flows should be read in conjunction
with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Alternative Investment Trust (the “Trust” or “AIT”) is an Australian registered managed investment scheme. AIT is quoted on the Australian Securities Exchange (ASX code AIQ). AIT was constituted on 7 April 2005. AIT is a for-profit entity for financial reporting purposes.

The Responsible Entity of AIT is The Trust Company (RE Services) Limited (ABN 45 003 278 831; AFSL 235150). The registered office and principal place of business of the Responsible Entity is Level 18, 123 Pitt Street, Sydney, NSW 2000.

Laxey Partners (UK) Ltd (“Laxey” or the “Investment Manager”) is the Investment Manager of AIT.

The financial statements were authorised for issue by the Directors on 27 February 2017. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

On 12 September 2016, a meeting of members of AIT took place where members voted in favour of a change in Responsible Entity to One Managed Investment Funds Limited. As of the date of this report the Responsible Entity has not changed as the Australian Securities & Investments Commission (ASIC) has not yet updated its register.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001* in Australia.

The financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities held at fair value through profit or loss that have been measured at fair value. This is consistent with the intention of the Responsible Entity and the Investment Manager to wind-up AIT in an orderly manner.

Compliance with International Financial Reporting Standards (IFRS)

The financial report of AIT, comprising the financial statements and notes thereto, complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

(b) Foreign currency translation

The functional and presentation currency of AIT is Australian dollars (\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency translation (continued)

Exchange differences arising on the settlement of monetary items or on transacting monetary items at rates different from those at which they were translated on initial recognition during the year or in a previous financial report, are recognised in profit or loss in the year in which they arise.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(c) Cash and cash equivalents

Cash and short term deposits in the Statement of Financial Position comprises cash at bank and on hand and short term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consists of cash and cash equivalents as defined above.

(d) Revenue

Interest revenue is recognised on an accruals basis taking into account the interest rates applicable to the financial assets.

Dividend and distribution income is recognised when the right to receive payment is established.

(e) Payables

These amounts represent liabilities for goods and services provided to AIT prior to the end of the financial year. The amounts are carried at cost, are unsecured and are usually paid within 30 days of recognition.

(f) Receivables

Receivables may include amounts for interest, dividends, distribution and Goods and Services Tax (GST) recoverable from the Australian Taxation Office (ATO). Interest is accrued at the reporting date from the time of cash payment. Dividends are accrued when the right to receive payment is established.

(g) Net assets attributable to unitholders

Contributions from unitholders and the net profit/(loss) attributable to unitholders of AIT are recognised in the Statement of Financial Position as net assets attributable to unitholders.

Amounts payable to unitholders are redeemable at the unitholders' option and are classified as a financial liability.

Non-distributable income is included in net assets attributable to unitholders. The change in this amount each year represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

(h) Financial assets at fair value through profit or loss

The Total Return Swap, investments in unlisted unit trusts and direct investments in portfolio funds are classified as financial assets at fair value through profit or loss and are measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial assets at fair value through profit or loss (continued)

Swap receivable (Underlying Investment Portfolio)

The financial assets of AIT are comprised of a receivable under a Total Return Swap, which reflects the fair value of the Underlying Investment Portfolio upon which AIT's return is based. Fair value of the swap receivable is calculated with reference to the fair value of the Underlying Investment Portfolio at the reporting date. Gains and losses arising from changes in fair value are taken directly through the Statement of Profit or Loss and Comprehensive Income.

Direct Investments in Portfolio Funds

Direct Investments are accounted for at fair value through profit or loss based on the administrator released net asset value information, which is subsequently confirmed by the fund manager, confirming the holding and closing value as at the reporting date.

All direct investments are carried at their net asset value and no estimates/judgements are made by the management on valuation.

(i) Income tax

Under current legislation, AIT is not liable to pay income tax, since under the terms of the Constitution, the unitholders are presently entitled to the income of AIT.

There is no income of AIT to which the unitholders are not presently entitled and in addition, subject to the availability of tax losses, the Constitution requires the distribution of the full amount of the net income of AIT to the unitholders each period.

(j) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST, except:

- (i) where the amount of GST incurred is not recoverable from the ATO, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(k) Distributions

In accordance with AIT's constitution, AIT fully distributes its taxable income to unitholders by cash or reinvestment. The distributions are recognised in the Statement of Profit or Loss and Comprehensive Income as finance costs attributable to unitholders.

(l) Earnings per unit

Basic and diluted earnings per unit are calculated as profit/(loss) attributable to unitholders in the Trust divided by the weighted average number of units on issue.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets

Assets are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Current market prices are used to determine recoverable amount.

(n) Fair value of financial instruments

In determining fair value, AIT uses various valuation approaches. Market price observability is affected by a number of factors, including the type of financial instrument and the characteristics specific to the financial instrument. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Unobservable inputs are inputs that reflect AIT's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

- (i) Level 1 – valuations based on quoted prices in active markets for identical assets and liabilities. An active market for the financial instrument is a market in which transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis, as well as at the reporting date.
- (ii) Level 2 – valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Observable inputs are other than Level 1 prices such as quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in non-active markets; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- (iii) Level 3 – valuations based on inputs that are unobservable and significant to the overall fair value measurement inputs (including AIT's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is a market based measure considered from the perspective of market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Responsible Entity's and Investment Manager's own assumptions are set to reflect those that the market participants would use in pricing the asset or liability at the measurement date. The Responsible Entity and Investment Manager use prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for some instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3. The fair value hierarchy of AIT's financial assets has been disclosed in Note 7.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Accounting assumptions

Variability of foreign currency rates

The 10% sensitivity is based on Laxey's best estimate of variability of the Australian dollar and US dollar.

(p) Standards and amendments to existing standards effective 1 January 2016

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Trust's financial statements for the year ended 31 December 2015.

New standards and interpretations mandatory for the annual reporting periods beginning 1 January 2016 impacting the Trust have been adopted and reflected in these financial statements. The adoption has no impact on the financial position or disclosures.

(q) New accounting standards and interpretations

Accounting standards and interpretations that have been issued or amended but are not yet effective have not been adopted by the Trust for the annual reporting year ended 31 December 2016:

AASB 9 Financial Instruments, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments – Part C and related amendment to AASB 2010-7 and AASB 2014-1 Amendments to Accounting Standards – AASB 9 Financial Instruments requires all financial instruments to be measured at fair value unless the criteria for amortised cost are met. The application of the standard is not expected to change the measurement basis of any of the Trust's current financial instruments, however, AASB 9 Financial Instruments allows the Trust to elect to present gains and losses on financial instruments held at fair value through other comprehensive income, which may impact the presentation of these gains and losses. The impact of the standard may also change if the nature of the Trust's activities or investments changes prior to initial application. AASB 9 Financial Instruments applies to annual reporting period beginning on or after 1 January 2018. The Responsible Entity is continuing to assess the full impact of adopting AASB 9 Financial Instruments on the Trust's financial statements.

3. SEGMENT INFORMATION

AASB 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of AIT that are regularly reviewed by Laxey in order to allocate resources to the segment and to assess its performance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SEGMENT INFORMATION (CONTINUED)

AIT engages in one business activity from which it earns revenues, being investment returns, and its results are analysed as a whole by the chief operating decision maker, Laxey. As such, AIT has one reportable operating segment. The following is an analysis of AIT's investment revenue/(losses) by reportable operating segment:

	Year ended	
	31 December	31 December
	2016	2015
	\$'000	\$'000
Operating segment		
Investment management:		
Attributable to Australia	(1,299)	1,279
Total investment (loss)/income	(1,299)	1,279

4. OTHER EXPENSES

	Year ended	
	31 December	31 December
	2016	2015
	\$'000	\$'000
Other expenses		
Professional fees	339	353
Fund administration and custody expenses	183	218
Other general and administrative expenses	121	120
Auditor's remuneration	57	57
Total other operating expenses	700	748

5. NET (LOSS)/GAIN ON FINANCIAL INSTRUMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended	
	31 December	31 December
	2016	2015
	\$'000	\$'000
Financial instruments		
Fair value (loss)/gain on Underlying Investment Portfolio	(1,272)	1,186
Net loss on direct investments designated as fair value through profit or loss	(100)	(6)
Total net (loss)/gain on financial instruments held at fair value through profit or loss	(1,372)	1,180

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. EARNINGS PER UNIT

Basic earnings per unit is calculated as net profit/(loss) attributable to unitholders of AIT divided by the weighted average number of units on issue.

	Year ended	
	31 December	31 December
	2016	2015
(Loss)/profit attributable to unitholders (\$'000)	(2,203)	293
Weighted average number of units on issue ('000)	130,692	130,692
Basic and diluted (loss)/earnings per unit in cents	(1.69)	0.22

There is no difference between basic and diluted earnings per unit as no units are dilutive in nature.

7. FAIR VALUES

	Year ended	
	31 December	31 December
	2016	2015
	\$'000	\$'000
Financial assets		
Underlying Investment Portfolio	10,731	14,090
Direct Investment in Portfolio Fund (Everest Babcock & Brown Income Fund ("EBBIF") New Class C)	–	512
Total financial assets held at fair value through profit or loss	<u>10,731</u>	<u>14,602</u>

On 20 April 2016, AIT's holding in EBBIF was fully liquidated. Total distributions received from EBBIF during 2016 amounted to \$411,105 (fair value as at 31 December 2015: \$511,146).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. FAIR VALUES (CONTINUED)

The Underlying Investment Portfolio represents AIT's exposure to the Total Return Swap. Fair value of the swap is calculated with reference to the fair value of the absolute return funds held within the Swap. The fair value of these assets is based on the net asset value information received from the underlying fund's administrator, and, where appropriate, estimated performance data from the underlying fund's manager. All the absolute return funds held within the swap are either side pockets or liquidating funds. These assets are considered highly illiquid and therefore timing of redemptions is difficult to predict. They represent 57% of AIT's gross assets and 74% of the Underlying Investment Portfolio. The values have not been adjusted for liquidity. These fair values are reconciled monthly by AIT's third party administrator and any changes in fair value reviewed for reasonableness by Laxey. Fair values are also checked against the official swap valuation provided by Macquarie Bank Limited. In addition, the Underlying Investment Portfolio also includes cash and cash equivalents held within the Swap. This includes cash on hand, unsettled trades, accrued interest on cash balances and any relevant fees in relation to the administration and custody of the Swap and its underlying portfolio. These cash and cash equivalents are carried at amortised cost. Neither Laxey nor the Responsible Entity has direct input into the valuation methodologies applied by the underlying investment administrators in determining net asset values. However, Laxey on behalf of the Responsible Entity, is in regular contact with both the underlying investment administrators and investment managers and enquires where there are unexpected valuation changes. The Underlying Investment Portfolio are either liquidating funds or side pocket positions where the underlying investments are highly illiquid and the timing of redemptions from the underlying investments are uncertain. Redemption proceeds may be uncertain and irregular as they are dependent on the timing of underlying managers realising individual illiquid investments. The Underlying Investment Portfolio is classified under level 3 in the fair value hierarchy table as valuations are based on net asset values of the absolute return funds held within the Swap which have underlying level 3 investments. If the fair value of the absolute return funds held within the swap had increased/decreased in value by 5% as at 31 December 2016, the effect on net assets attributable to unitholders would have been an increase/decrease of \$536,550 (2015: \$730,100).

The following fair value hierarchy table presents information about AIT's financial assets measured at fair value on a recurring basis as at 31 December 2016 and 31 December 2015.

	31 December 2016			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Financial assets				
Underlying Investment Portfolio	–	–	10,731	10,731
Direct Investment in Portfolio Fund (EBBIF New Class C)	–	–	–	–
Total financial assets held at fair value through profit or loss	–	–	10,731	10,731
	31 December 2015			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Financial assets				
Underlying Investment Portfolio	–	–	14,090	14,090
Direct Investment in Portfolio Fund (EBBIF New Class C)	–	–	512	512
Total financial assets held at fair value through profit or loss	–	–	14,602	14,602

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. FAIR VALUES (CONTINUED)

Assets measured on a recurring basis using significant unobservable inputs (Level 3):

	31 December 2016			Total \$'000
	Underlying investment portfolio	Unlisted managed fund	Direct Investment in Portfolio Fund (EBBIF New Class C)	
	\$'000	\$'000	\$'000	
At 1 January 2016	14,090	–	512	14,602
Net realised gain/(loss)	328	–	(133)	195
Net change in unrealised (loss)/gain	(1,600)	–	33	(1,567)
Sales	(2,087)	–	(412)	(2,499)
At 31 December 2016	<u>10,731</u>	<u>–</u>	<u>–</u>	<u>10,731</u>

Assets measured on a recurring basis using significant unobservable inputs (Level 3):

	31 December 2015			Total \$'000
	Underlying investment portfolio	Unlisted managed fund	Direct Investment in Portfolio Fund (EBBIF New Class C)	
	\$'000	\$'000	\$'000	
At 1 January 2015	17,208	111	518	17,837
Net realised gain	739	–	–	739
Net change in unrealised gain/(loss)	447	–	(6)	441
Sales	(4,304)	(111)	–	(4,415)
At 31 December 2015	<u>14,090</u>	<u>–</u>	<u>512</u>	<u>14,602</u>

All financial assets at fair value through profit or loss are not valued based on observable market data and are subject to liquidity restrictions and as such they have been determined to be Level 3 assets. The valuation of the Underlying Investment Portfolio is based on published redemption prices and as such a meaningful sensitivity is not available on the valuation inputs and resulting impact on the valuation of the Underlying Investment Portfolio. The values have not been adjusted for liquidity as the Investment Manager is in regular contact with underlying investment managers and deem the current values as reasonable. Refer to Financial Risk Management Objectives and Policies in Note 13 for details of AIT's sensitivity to market risk.

There were no transfers between levels during the years ended 31 December 2016 and 31 December 2015. The Responsible Entity and Laxey assess hierarchical classification at each reporting date.

For all other financial assets and liabilities (cash and cash equivalents, receivables, payables and net assets attributable to unitholders) their carrying value is a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. RECONCILIATION OF PROFIT/(LOSS) TO NET CASH USED IN OPERATING ACTIVITIES

	Year ended	
	31 December	31 December
	2016	2015
	\$'000	\$'000
Reconciliation of (loss)/profit to net cash used in operating activities		
Change in net assets attributable to unitholders	(2,203)	293
Fair value loss/(gain) on Underlying Investment Portfolio	1,272	(1,186)
Fair value loss on direct financial assets	100	6
Foreign exchange gain	–	(15)
(Increase)/decrease in receivables	(1)	6
Decrease in payables	(48)	(17)
Net cash used in operating activities	(880)	(913)

9. CASH AND CASH EQUIVALENTS

	31 December	
	2016	31 December
	\$'000	2015
	\$'000	\$'000
Domestic cash at bank	3,349	3,690
Foreign currency holdings	69	69
Total cash and cash equivalents	3,418	3,759

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term investments in active markets.

10. RECEIVABLES

	31 December	
	2016	31 December
	\$'000	2015
	\$'000	\$'000
GST recoverable	11	8
Other receivables	17	19
Total receivables	28	27

No loss has been recognised in respect of receivables during the year ended 31 December 2016 (2015: nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. PAYABLES

	31 December 2016 \$'000	31 December 2015 \$'000
Amounts owing to Responsible Entity	15	7
Management fees	34	38
Fund administration and custody expenses payable	38	41
Other payables	109	158
Total payables	<u>196</u>	<u>244</u>

12. UNITS ON ISSUE

Movements in the number of units and in net assets attributable to unitholders during the year were as follows:

	31 December 2016 No. of units	31 December 2015 No. of units	31 December 2016 \$'000	31 December 2015 \$'000
Opening balance	130,692,470	130,692,470	18,144	23,078
Return of capital	–	–	(1,960)	(5,227)
Change in net assets attributable to unitholders	–	–	(2,203)	293
Closing balance	<u>130,692,470</u>	<u>130,692,470</u>	<u>13,981</u>	<u>18,144</u>

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES

The initial purpose of the Investment Portfolio was to meet AIT's investment objective of positive risk adjusted, absolute returns over the medium to long term and in all market conditions. The strategy for achieving this objective focused on obtaining exposure to a portfolio of international absolute return funds (Underlying Investment Portfolio) and select subordinated debt and equity company investments. The former investment manager (Everest Capital Investment Manager Limited) was responsible for the process of sourcing investments and conducting analysis and due diligence using its selection criteria and the ongoing monitoring of the underlying Investment Portfolio. The Underlying Investment Portfolio had to comply with the agreed guidelines.

The current strategy is an orderly realisation of the assets. No new investments are currently permitted.

Risks arising from holding financial instruments are inherent in AIT's activities, and are managed through a process of ongoing identification, measurement and monitoring.

Financial instruments of AIT comprise investments in financial assets for the purpose of generating a return on the investment made by unitholders, in addition to derivatives, cash and cash equivalents, net assets attributable to unitholders, and other financial assets such as trade debtors and creditors, which arise directly from operations.

AIT entered into derivative transactions, principally a total return equity swap denominated in US dollars.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

AIT is exposed to credit risk, market risk and liquidity risk arising from the financial instruments it holds. The risk management policies employed by Laxey on behalf of the Responsible Entity for AIT to manage these risks are discussed below.

(a) Credit risk

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract and cause AIT to incur a financial loss.

In relation to derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. This risk is minimised by ensuring counterparties, together with the respective credit limits are assessed and approved. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the Statement of Financial Position.

AIT's financial assets can be analysed by the following geographic regions:

31 December 2016	Australia	US	Total
	\$'000	\$'000	\$'000
Cash and cash equivalents	3,349	69	3,418
Receivables	28	–	28
Financial assets at fair value through profit or loss	–	10,731	10,731
Total	3,377	10,800	14,177

31 December 2015	Australia	US	Total
	\$'000	\$'000	\$'000
Cash and cash equivalents	3,690	69	3,759
Receivables	27	–	27
Financial assets at fair value through profit or loss	512	14,090	14,602
Total	4,229	14,159	18,388

The credit exposure of the financial assets designated as fair value through profit or loss in Australia includes the intrinsic value of the Total Return Swap of \$10,730,608 (2015: \$14,090,025), being the fair value of the Underlying Investment Portfolio. This credit risk is mitigated by the fact that assets with a total value of \$14,280,782 (2015: \$18,645,189) are held by third party custodians and subject to first ranking changes in favour of the Responsible Entity.

An industry sector analysis of AIT's direct assets is as follows:

	2016	2015
	\$'000	\$'000
Financial services	–	512

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(b) Liquidity and cash flow risk

Liquidity risk is the risk that AIT will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments or satisfy creditors' concerns of AIT. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate. The Investment Manager manages the cash flow risk by preparing monthly cash flow forecasts to ensure that upcoming commitments can be met by AIT, as and when they fall due.

The table below analyses AIT's financial liabilities into relevant maturity groupings based on the remaining period from 31 December 2016 to the contractual maturity date. The amounts in the table are contractual undiscounted cash flows. Balances due equal their carrying values, as the impact of discounting is not considered significant.

Amounts payable to unitholders are classified as a financial liability. The Trust is currently undergoing an orderly realisation of assets. Due to the uncertainty of the timing of redemptions from the underlying investments, it is not possible to determine the timing in which net assets attributable to unitholders will be paid to unitholders. As such, no maturity analysis has been conducted on the net assets attributable to unitholders.

	Less than 1 month \$'000	1-12 months \$'000	Greater than 12 months \$'000	Total \$'000
As at 31 December 2016				
Payables	196	–	–	196
As at 31 December 2015				
Payables	244	–	–	244

Redleaf Capital Limited ("Redleaf"), formerly known as Everest Capital Limited, the former trustee of EBBIF, previously made a claim against the assets of EBBIF. Redleaf sought to be reimbursed by EBBIF for certain costs and expenses that it had incurred in connection with an investigation by ASIC (Australian Securities and Investments Commission) in respect of the administration of EBBIF by Redleaf. The claim was for approximately \$2 million.

One Investment Group Limited ("OIG"), the current trustee of EBBIF, and Redleaf have settled the claim on 29 January 2016. Under the terms of the settlement, \$300,000 has been paid to Redleaf out of EBBIF and Redleaf has acknowledged that it has no further claim against EBBIF.

Settlement of the claim allowed OIG to pay an interim return of capital of \$215,473 to all unitholders on 29 January 2016 and a final return of capital of \$195,362 on 19 April 2016.

(c) Market risk

Market price risk is the risk that the value of AIT's investment portfolio will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates and equity prices or will be adversely affected as a result of market illiquidity. This risk is managed by ensuring that all activities are transacted in accordance with investment guidelines. AIT is subject to the restrictions set out under the Swap agreement with Macquarie Bank Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(c) Market risk (continued)

(i) Foreign exchange risk

AIT is exposed to foreign exchange risk as a result of investments in financial instruments denominated in foreign currencies. AIT has exposure to foreign currency risk implicit in the value of portfolio securities denominated in a foreign currency and transactional exposure arising from the sale of securities. The Investment Manager and Responsible Entity have not hedged AIT's exposure to the US dollar; however, when funds are available in the swap these are converted from US dollars into Australian dollars and transferred to AIT's Australian dollar denominated bank account.

The following table indicates the currencies to which AIT had significant exposure as at 31 December 2016 on its assets and liabilities highlighting AIT's net exposure to foreign exchange risk.

31 December 2016	Australian dollars \$'000	US dollars \$'000	Total \$'000
Assets			
Cash and cash equivalents	3,349	69	3,418
Receivables	28	–	28
Financial assets at fair value through profit or loss	–	10,731	10,731
Total assets	3,377	10,800	14,177
Liabilities			
Payables	196	–	196
Total liabilities (excluding net assets attributable to unitholders)	196	–	196
Net assets attributable to unitholders	3,181	10,800	13,981
Total foreign currency exposure	–	10,800	10,800

As at 31 December 2016, had the exchange rate of the US dollar and other currencies increased or decreased by 10% with all other variables held constant, the impact on the net assets attributable to unitholders and on profit or loss is reflected in the table below.

31 December 2016	US dollars \$'000
Increase of 10%	1,080
Decrease of 10%	(1,080)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(c) Market risk (continued)

(i) Foreign exchange risk (continued)

The following table indicates the currencies to which AIT had significant exposure as at 31 December 2015 on its assets and liabilities highlighting AIT's net exposure to foreign exchange risk.

31 December 2015	Australian dollars \$'000	US dollars \$'000	Total \$'000
Assets			
Cash and cash equivalents	3,690	69	3,759
Receivables	27	–	27
Financial assets at fair value through profit or loss	512	14,090	14,602
Total assets	4,229	14,159	18,388
Liabilities			
Payables	222	22	244
Total liabilities (excluding net assets attributable to unitholders)	222	22	244
Net assets attributable to unitholders	4,007	14,137	18,144
Total foreign currency exposure	–	14,137	14,137

As at 31 December 2015, had the exchange rate of the US dollar and other currencies increased or decreased by 10% with all other variables held constant, the impact on the net assets attributable to unitholders and on profit or loss is reflected in the table below.

31 December 2015	US dollars \$'000
Increase of 10%	1,414
Decrease of 10%	(1,414)

(ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

AIT has exposure to interest rate risk with respect to the cash balance and the fixed interest securities held at the Statement of Financial Position date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Laxey is responsible for managing direct interest rate risk with respect to the cash balance and investments in fixed interest securities and reporting any issues to the Responsible Entity.

31 December 2016	Floating interest rate \$'000	1-12 months \$'000	Fixed interest rate		Total \$'000
			Greater than 12 months \$'000	Non-interest bearing \$'000	
Assets					
Cash and cash equivalents	3,418	–	–	–	3,418
Receivables	–	–	–	28	28
Financial assets at fair value through profit or loss	–	–	–	10,731	10,731
Total assets	3,418	–	–	10,759	14,177
Liabilities					
Payables	–	–	–	196	196
Total liabilities (excluding net assets attributable to unitholders)	–	–	–	196	196
Net exposure	3,418	–	–	10,563	13,981
31 December 2015	Floating interest rate \$'000	1-12 months \$'000	Fixed interest rate		Total \$'000
			Greater than 12 months \$'000	Non-interest bearing \$'000	
Assets					
Cash and cash equivalents	3,759	–	–	–	3,759
Receivables	–	–	–	27	27
Financial assets at fair value through profit or loss	–	–	–	14,602	14,602
Total assets	3,759	–	–	14,629	18,388
Liabilities					
Payables	–	–	–	244	244
Total liabilities (excluding net assets attributable to unitholders)	–	–	–	244	244
Net exposure	3,759	–	–	14,385	18,144

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

AIT is not exposed to significant interest rate risk as it does not maintain large reserves of cash and cash equivalents or any other interest bearing securities. Available cash is distributed to unitholders as soon as practical in line with the realisation strategy.

(iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in market prices, whether those changes are caused by factors specific to the individual stock or factors affecting all instruments in the market. Equity price risk exposure arises from AIT's notional investments in listed equities, through the Swap where the underlying funds invest in a variety of different securities. The Trust is not directly correlated with any particular stock market indices. The sensitivity analysis below is undertaken to reflect the fact that the Trust does not benchmark the performance of the Trust against any stock indices.

As at 31 December 2016, a positive 5% sensitivity would have had an impact on the Trust's net assets attributable to unitholders and on profit or loss to the amount of \$536,550 (2015: \$730,100). A negative sensitivity would have an equal but opposite effect.

Investment and leverage guidelines

AIT is no longer permitted to:

- Add any new investments to the Underlying Investment Portfolio (irrespective of whether such investments are within or outside the scope of the former investment guidelines);
- Increase the amount invested in investments that already form part of the Underlying Investment Portfolio;
- Obtain additional leverage for the purpose of increasing the value of the Underlying Investment Portfolio.

Investment strategy

Laxey's investment strategy, on behalf of the Responsible Entity, is to undertake an orderly wind down of the AIT portfolio and to return funds to unitholders when the level of funds permit.

Capital management

The Responsible Entity and Investment Manager's objective when managing capital is to continue to implement an orderly realisation of the Trust's assets and return capital to investors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. DERIVATIVE FINANCIAL INSTRUMENTS

AIT previously entered into transactions in various derivative financial instruments with certain risks. The carrying value of these investments is disclosed in Note 7. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. Typically derivative instruments are used for a number of purposes including:

- a substitution for trading physical securities;
- hedging to protect an asset or liability of AIT against a fluctuation in market values or to reduce volatility; or
- increasing or adjusting asset exposures with parameters set in the investment strategy (for example adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios).

(a) Swaps

Total return equity swap

The key terms and conditions of the swap agreement have been disclosed in the Risk Management section and the Investment and Leverage Guidelines section of the Directors' report, on pages 2 and 3 respectively.

15. RELATED PARTY TRANSACTIONS

Key management personnel

The following persons, being Directors of the Responsible Entity, had authority and responsibility for planning, directing and controlling the activities of AIT, directly or indirectly during the year and until the date of this report and were thus key management personnel:

Name

Andrew Cannane

Christopher Green

Michael Vainauskas

Glenn Foster

Rodney Garth Ellwood (Alternate Director for each of Andrew Cannane and Christopher Green)

Vikki Riggio (Appointed Alternate Director for Andrew Cannane on 1 November 2016)

Neil Wesley (Appointed Alternate Director for Glenn Foster on 13 January 2017)

Andrew Mclver (Appointed Alternate Director for Michael Vainauskas on 13 January 2017)

Key management personnel loan disclosures

AIT has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. RELATED PARTY TRANSACTIONS (CONTINUED)

Other transactions within AIT

Apart from those details disclosed in the note, no key management personnel have entered into a material contract with AIT since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

Responsible Entity's/Investment Manager's fees

The Responsible Entity charges 0.1% of gross assets per annum, subject to a minimum of \$80,000 per annum as Responsible Entity fees (excluding GST).

Laxey receives fees equal to the lower of AUD200,000 or 0.75% of the value of gross assets of AIT with no distribution fees. These fee arrangements are subject to both the overall fee cap of 1.25% per annum of the average value of gross assets of AIT and the Responsible Entity fee of AUD80,000. The Responsible Entity Fees and the Investment Manager's Fees in total are not to exceed 1.25% per annum of average gross assets.

	31 December 2016	31 December 2015
	\$	\$
Fees paid and payable to the Responsible Entity	83,600	83,600
Fees paid and payable to Laxey	120,352	154,437
Custody fees paid and payable to the Trust Company Limited	31,855	32,093
	235,807	270,130

As at 31 December 2016, AIT had a total of \$64,399 (2015: \$53,715) payable to the related parties.

Holding of units

During or since the end of the financial year, none of the Directors of the Responsible Entity held units in the Trust, either directly, indirectly, or beneficially (2015: nil).

16. AUDITOR'S REMUNERATION

During the year the following fees were paid or payable for services provided by the auditor of AIT.

	Year ended	
	31 December 2016	31 December 2015
	\$	\$
<i>During the year the auditor of AIT earned the following remuneration:</i>		
Ernst & Young		
Audit and review of financial statements	56,650	56,650
Total remuneration	56,650	56,650

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. AUDITOR'S REMUNERATION (CONTINUED)

	Year ended	
	31 December	31 December
	2016	2015
	\$	\$
<i>Amounts received or due and receivable by Non Ernst & Young audit firms for:</i>		
Other non-audit services	–	5,000

17. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

There are no commitments or contingencies as at 31 December 2016 (2015: nil).

18. SUBSEQUENT EVENTS

There has not been any other matter or circumstances, other than referred to in the financial statements or notes thereto that has arisen since the end of the financial period, that has significantly affected, or may significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial years.

DIRECTORS' DECLARATION

In the opinion of the Directors of The Trust Company (RE Services) Limited, the Responsible Entity of Alternative Investment Trust:

- (a) the financial statements and notes, set out on pages 15 to 38, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of AIT as at 31 December 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards, other mandatory professional reporting requirements and the Corporations Regulations 2001.
- (b) there are reasonable grounds to believe that AIT will be able to pay its debts as and when they become due and payable; and
- (c) the financial statements and notes have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board as disclosed in Note 2.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors of the Responsible Entity.



Director
Sydney, 27 February 2017

Independent auditor's report to the Unitholders of Alternative Investment Trust

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Alternative Investment Trust (the 'Trust'), which comprises the statement of financial position as at 31 December 2016, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Alternative Investment Trust is in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the Trust's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Trust in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Uncertainty in Relation to Valuation of Total Return Swap

We draw attention to Note 7 in the financial report which describes basis upon which the fair value of the Total Return Swap has been determined and the conditions of the underlying investment funds. The liquidity and the uncertainty of the timing of redemptions from the underlying investments indicate the existence of a material uncertainty that may cast significant doubt about the valuation and recoverability of the Total Return Swap. The financial report does not include any adjustments relating to the recoverability of the Total Return Swap. Our opinion is not modified in respect of this matter.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial report.

Valuation of the Total Return Swap

Why significant	How our Audit Addressed the Matter
<p>The Trust invests in a derivative swap instrument which is carried at fair value on the statement of financial position. The instrument is valued based on the fair value of a portfolio of absolute return funds held within the swap (the "Underlying Portfolio"). The valuation of the Underlying Portfolio is a key audit matter given the liquidity and uncertainty of the timing of redemptions from the Underlying Portfolio funds disclosed in Note 7 of the Financial Report.</p>	<p>Our procedures in relation to the valuation of the Total Return Swap included the following:</p> <ul style="list-style-type: none">- confirmed the value of the Total Return Swap with the counterparty;- agreed the Net Asset Value ("NAV") of the Underlying Portfolio received from the administrator of the Trust to the counterparty and the Trust's financial statements; and- obtained the audited financial statements of the Underlying Portfolio and analysed if there is any impact to the valuation of the Total Return Swap.

Information Other than the Financial Statements and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Trust's 2016 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.



If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsible Entity's responsibility for the Financial Report

The directors of The Trust Company (RE) Services Limited, the Responsible Entity of the Trust, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Rohit Khanna'.

Rohit Khanna
Engagement Partner
Sydney
27 February 2017

UNITHOLDER INFORMATION

The following unitholder information is provided as at 15 February 2017.

A. Distribution of unitholders

Size of holding	Number of unitholders	Number of units	% of units issued
Ranges			
1 to 1,000	497	264,253	0.20%
1,001 to 5,000	251	676,180	0.52%
5,001 to 10,000	80	612,231	0.47%
10,001 to 100,000	137	4,110,432	3.14%
100,001 and Over	52	125,029,374	95.67%
Total	1,017	130,692,470	100.00%

B. 20 Largest unitholders

Rank	Name of unitholder	Number of units	% of units issued
1	DYNASTY PEAK PTY LTD	18,121,834	13.87%
2	UBS NOMINEES PTY LTD	15,495,252	11.86%
3	MR SIMON ROBERT EVANS & MRS KATHRYN MARGARET EVANS	14,798,984	11.32%
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,811,778	9.04%
5	BRISPOT NOMINEES PTY LTD	10,259,018	7.85%
6	DAKOTA CAPITAL PTY LIMITED	5,811,409	4.45%
7	RESURGENCE CAPITAL PTY LIMITED	5,811,408	4.45%
8	VALAMOON PTY LIMITED	5,311,409	4.06%
9	CITICORP NOMINEES PTY LIMITED	4,636,134	3.55%
10	LIC INVESTMENTS PTY LTD	3,950,000	3.02%
11	MR SIMON ROBERT EVANS	3,270,775	2.50%
12	ASSURANCE CAPITAL PTY LTD	3,150,000	2.41%
13	MR GREGORY HUGH HALLIDAY & MR SIMON ROBERT EVANS & MR THOMAS VERNON FURNER	2,750,000	2.10%
14	CS FOURTH NOMINEES PTY LIMITED	2,199,250	1.68%
15	MRS KATHRYN MARGARET EVANS	2,014,000	1.54%
16	ONE MANAGED INVT FUNDS LTD	2,000,000	1.53%
17	DAKOTA CAPITAL PTY LTD	1,892,858	1.45%
18	ABBAWOOD NOMINEES PTY LTD	1,500,000	1.15%
19	CHRISWALL HOLDINGS PTY LTD	1,000,000	0.77%
20	MR SIMON ROBERT EVANS	608,014	0.47%
Total		116,392,123	89.07%

UNITHOLDER INFORMATION (CONTINUED)

C. Substantial unitholders

Name of unitholder	Number of units	% of units issued
Resurgence Capital Pty Limited	26,138,493	19.99%
Simon Robert Evans	25,791,253	19.75%
Dynasty Peak Pty Limited	18,121,834	13.87%
Regal Funds Management Pty Limited	15,495,252	11.86%
UBS AG	10,258,268	7.85%

D. Voting Rights

Voting rights which may attach to or be imposed on any Unit or Class of Units is as follows:

- (a) On a show of hands every unitholder present will have 1 vote; and
- (b) On a poll every unitholder present will have 1 vote for each dollar of the value of the total interests they have in the Trust.

OTHER INFORMATION

Company Secretary

Glenda Charles and Sylvie Dimarco are the company secretaries of The Trust Company (RE Services) Limited.

Stock exchange listing

The Scheme's units are listed on the Australian Securities Exchange and are traded under the code "AIQ".

Marketable parcels

The number of unitholders holding less than a marketable parcel of \$500 worth of units is 757 and they hold a total 988,358 units.

Buy-back

There is no current on market buy-back.

Voluntary escrow

There are no restricted units in the Scheme or units subject to voluntary escrow.

Unquoted units

There are no unquoted units on issue.

Registered office of Responsible Entity

The Trust Company (RE Services) Limited
Level 18, 123 Pitt Street
Sydney NSW 2000
Telephone: 02 8295 8100

Unit registry

Name:	Link Market Services Limited
Street address:	Level 12, 680 George Street Sydney NSW 2000
Postal address:	Locked Bag A14 Sydney South NSW 1235
Phone (inside Australia):	1800 502 355
Phone (outside Australia):	+61 2 8280 7111
Fax:	+61 2 9287 0303
Email:	registrars@linkmarketservices.com.au
Website:	www.linkmarketservices.com.au