APPENDIX 4E

Annual Report
For the year ended 31 December 2012

Name of entity: Alternative Investment Trust

1 REPORTING PERIOD AND PREVIOUS CORRESPONDING PERIOD

Current Reporting Period:	**12 months to 31 December 2012**
Previous Corresponding Period:	12 months to 31 December 2011

2 RESULTS FOR ANNOUNCEMENT TO THE MARKET

		2012 ($000)	2011 ($000)
2.1	Revenue from ordinary activities	Up 56.98% to 4,069	2,592
2.2	Profit (loss) from ordinary activities after tax attributable to unitholders*	Up 2155.79% to 1,953	(95)
2.3	Net profit (loss) for the period attributable to unitholders *	Up 2155.79% to 1,953	(95)

*excludes loss attributable to minority interest

		2012		2011	
		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 2012 distribution - 31 December 2012
No distribution was declared or paid for the year ended 31 December 2012 (31 December 2011: $nil)

2.6 An explanation of results is indicated on page 2 of 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 2012 (31 December 2011: $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 2012 (Ex distribution)	**$0.54**
NTA per security as at 31 December 2011 (Ex distribution)	$0.83

10 DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD
During the financial period changes in the investment in the following entities occurred:

10.1	Name of the entity	EBI Income Fund
10.2	The date of the loss of control	20 December 2012

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

Additional Appendix 4E disclosure requirements can be found in the notes to the financial report for the year ended 31 December 2012.

This report is based on the consolidated annual report 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 2012

Contents

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 consolidated financial report of AIT and its controlled entities ('the Consolidated Entity') up until 20 December 2012, for the year ended 31 December 2012.

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 15, 20 Bond Street, Sydney, NSW 2000.

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:

Name
John Atkin
David Grbin
Andrew Cannane
Rupert Smoker (appointed as an Alternate Director for John Atkin, David Grbin, and Andrew Cannane from 20 February 2012)

PRINCIPAL ACTIVITIES

AIT is a registered managed investment scheme domiciled and registered in Australia. AIT has exposure to a portfolio of absolute return funds via a swap agreement with Macquarie Bank Limited ("the Swap") and a number of small investments held outside the swap, being units in Everest Babcock & Brown Income Fund ("EBBIF") and Class A2 Notes in Babcock and Brown CDO Fund.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year ended 31 December 2012, the trustee of the EBI Income Fund ("EBIIF" – former subsidiary) terminated EBIIF and made a prorated in-specie distribution of the remaining assets to its unitholders. The in-specie distribution was made on 20 December 2012 and as part of this distribution AIT received:

- $409,933.15 in cash;
- 33,191,268.7861 EBBIF New Class C units, valued at approximately $544,337; and
- 365 Class A2 Notes in a Babcock and Brown CDO Fund, which are currently valued at $nil.

Following the payment of the in-specie distribution, AIT's 73% holding in EBIIF was redeemed in full and as a result at year-end the Consolidated Entity no longer had an investment in EBIIF. AIT's investment in EBIIF was consolidated up to the date of termination and the performance of EBIIF up to that date has been included in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows. From the date of termination (20 December 2012) both the units in EBBIF and the CDO have been accounted for at fair value through profit or loss.

During the year ended 31 December 2012, the Responsible Entity made two capital returns totalling to $39.2 million (2011: $69.3 million). Since the appointment of Laxey and the Responsible Entity, capital of $170.0 million has been returned to unitholders as at 31 December 2012 (2011: $130.8 million), excluding the $17.0 million distribution paid after year end.

DIRECTORS' REPORT (CONTINUED)

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.

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

	Consolidated	
	Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
Change in net assets attributable to unitholders	1,936	(282)

VALUE OF ASSETS AND UNITS ISSUED

The total value of the AIT's assets as at year end is $71,252,000 (2011: $108,922,000). The total number of units issued as at 31 December 2012 is 130,692,470 (2011: 130,692,470).

DISTRIBUTION/ RETURN OF CAPITAL

There were two returns of capital during 2012, with total capital returned during the year of $39.2 million (2011: $69.3 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 the fund will be entitled to a share of it. Future investors will not receive a share of the proceeds in the event the asset's returns are realised. Full commentary on this process may be found in the Investment Manager's Report on page 12.

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 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 Consolidated Statement of Financial Position.

DIRECTORS' REPORT (CONTINUED)

RISK MANAGEMENT (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.

(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 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;
- 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.

Strategic review of operating costs
In line with the reduction in AIT's asset base and as approximately 50% of AIT's remaining assets are now in side-pockets within the Swap, the directors of the Responsible Entity have determined to undertake a review of AIT's operating costs base, with a view to streamlining and reducing AIT's ongoing operating costs.

The Responsible Entity will keep unitholders informed of its progress via announcements on the ASX.

Distributions
The directors of the Responsible Entity will continue to make distributions 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; and
- 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).

The timing of the next distribution is not yet known, but the Responsible Entity will make an announcement to the market advising of the timing of the next distribution when cash reserves build to a level that it is in the best interests of unitholders to make a distribution.

INTERESTS OF DIRECTORS OF THE RESPONSIBLE ENTITY

The Directors of the Responsible Entity did not hold any interest in AIT at 31 December 2012 (2011: 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 2012, the Responsible Entity had no interest in AIT (2011: nil).

Fees paid/payable to the Responsible Entity and Laxey during the year were as follows:

	Consolidated	
	2012	2011
	$	$
Responsible Entity fees	87,438	134,201
Investment Manager fees	943,897	1,525,941

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).

Laxey has and will continue to charge 0.75% per annum (excluding GST) of average gross assets and 1% of distributions paid to investors (excluding GST) as Investment Manager's fees. The Responsible Entity Fees and Investment Manager's Fees in total are not to exceed 1.25% per annum of average gross assets.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to year end, the Responsible Entity determined to pay a distribution of 13 cents per unit, being a total of $17.0 million which was paid to unitholders on 5 February 2013.

Other than the above, there has not been any matter or circumstance that has arisen since 31 December 2012 that has significantly affected, or may significantly affect:

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

There were no non-audit services (other than the compliance audit) performed by the auditor in the current financial year (2011: nil).

ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

AIT is an entity of the kind referred to in Class Order 98/100 (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 Class Order, 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 20.

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

David Grbin
Director
Sydney, 26 February 2013

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 The Trust Company Limited (ASX: TRU) ("**The Trust Company**"). The Responsible Entity is reliant on The Trust Company 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. The Trust Company 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 Scheme'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. In adhering to this overarching principle we observe a set of more specific principles that apply to all aspects of operating the Scheme.

These specific principles are outlined below:

1.	***Investment mandate*** The Responsible Entity is vigilant in ensuring that the Trust's investments, including its assets and liabilities, are in accordance with the Trust's investment mandate.
2.	***Debts and solvency*** The Responsible Entity is vigilant in monitoring the financial position of the Trust, in seeking to ensure that the Trust remains solvent and able to pay its debts as they fall due and that obligations are only entered into in accordance with the Trust documents.
3.	***Good disclosure*** The Responsible Entity is vigilant in ensuring full, frank and timely disclosure of the Trust's affairs to relevant stakeholders including the Trust's unitholders. This includes financial reporting, continuous disclosure, offer documents and other material disclosures.
4.	***Related party*** The Responsible Entity is vigilant in scrutinising any related party transactions to ensure they are allowed only on arm's length terms and in the best interests of the Trust's unitholders.
5.	***Conflict management*** The Responsible Entity is vigilant in ensuring that any actual or potential conflicts in connection with the Trust are appropriately and transparently managed.
6.	***Fraud mitigation*** The Responsible Entity ensures that it operates the Trust in ways that are designed to mitigate the risk of fraud.
7.	***Service providers*** The Responsible Entity engages and acts in alliance with external service providers as part of operating the Scheme in the best interests of unitholders. This includes appropriate selection, engagement, management and monitoring processes.

CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)

8.	***Safe custody*** The Responsible Entity ensures that the Trust's assets are kept in safe and segregated custody.
9.	***Effective administration*** The Responsible Entity ensures that the Trust's affairs are administered effectively and efficiently. This includes appropriate controls, systems, processes and record-keeping.
10.	***Governance, risk and compliance management*** The Responsible Entity ensures that the Trust is operated in accordance with appropriate governance, risk and compliance management frameworks.
11.	***Organisational competence*** The Responsible Entity's Compliance Committee, Directors, management, staff and service providers are comprised of professionals who hold and maintain appropriate qualifications and experience to discharge their responsibilities to the highest standards of excellence.
12.	***Financial capability*** The Responsible Entity meets and maintains the adequacy of its capital, liquidity, insurance and other requirements in order to discharge its obligations under its AFS Licence in relation to the Trust.
13.	***Unitholders' feedback*** The Responsible Entity respects and supports the rights of the Trust's unitholders to question the Responsible Entity through appropriate complaints handling processes and/or unitholders' meetings.

Corporate governance

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 The Trust Company's Ethical Framework 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 below in relation to the Schemes, including the Trust, for the year ended 31 December 2012. This corporate governance statement is current as at the date of the Trust's financial report.

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. To assist the RE Board in carrying out its functions it has regard to the Ethical Framework developed by The Trust Company to guide the Directors, management and staff in the performance of their roles.

The RE Board ensures that the performance of the Responsible Entity's management is evaluated against agreed plans and the key performance indicators that are set annually as part of The Trust Company's performance management process. The performance of all management and staff of The Trust Company (which includes those staff involved in managing the Schemes) is evaluated on a six monthly basis against their key performance indicators that have been set annually and cover both financial and non-financial aspects of each person's role. For the Responsible Entity, as part of The Trust Company, the performance management process plays a key role in developing high performance teams and aligning employee and organisational behaviour with The Trust Company's cultural values as set out in the Ethical Framework. The performance evaluation of the Responsible Entity's Directors, management and staff has taken place in accordance with the above process.

Principle 2 – Structure the board to add value

At present the RE Board consists of three executive directors. The names of the current Directors are set out in the directors' report which forms part of the Trust's financial report. The RE Board meets regularly and considers that the composition and mix of skills of directors is appropriate for the directors to understand the Responsible Entity's business and to discharge their duties. The RE Board also ensures that it maintains independent judgement in board decisions. A chairman is selected by the Directors at the start of each board meeting. The RE Board meets monthly and more frequently as required to consider matters in relation to any of the Schemes.

The Responsible Entity adds value in terms of the best interests of the Trust's unitholders through being completely independent of the Investment Manager it has engaged in relation to the Trust, being Laxey Partners (UK) Limited. There are no common directors and no related party interests between the Responsible Entity and the Investment Manager. This independent structure avoids any conflicts of interest between the Responsible Entity and the Investment Manager whenever discretionary decisions are required of either entity in their respective capacities.

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 consists of only non-executive members, has a majority of independent members and is chaired by an independent member who is not the chair of the RE Board.

The nomination committee functions are carried out by the full RE Board given the size of The Trust Company group and the RE Board itself. The RE Board makes an assessment in relation to the appointment of new directors and in relation to itself, and ensures that it complies with the Responsible Entity's constitution.

The RE Board is provided with regular detailed reports on the financial position, financial performance and business of the Responsible Entity and the Schemes to allow the Board to effectively fulfil its responsibilities. The Directors have access to the management, staff and advisers of the Responsible Entity and The Trust Company as necessary if they require additional information. The Directors also have access, as and when required, to the service providers engaged by the Responsible Entity, such as the Investment Manager. Further, The Trust Company has entered into arrangements with the Responsible Entity's Directors in relation to access to information and advice as well as indemnity and insurance; these arrangements contemplate that the Directors are entitled to seek independent professional advice if required from time to time.

CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)

Principle 3 – Promote ethical and responsible decision-making

The Responsible Entity, as part of The Trust Company, has both an Ethical Framework and a Code of Conduct within which it carries on its business and deals with its stakeholders. These apply to all directors and employees of The Trust Company, and the Responsible Entity. The Ethical Framework supports all aspects of the way The Trust Company, and the Responsible Entity, conducts its business and is embedded into the Trust Company's performance management process. The Ethical Framework, guides and better aligns The Trust Company's cultural values with the decision making conducted at all levels within The Trust Company's business, and integrates this with The Trust Company's purpose, vision and goals as an organisation and as a valued member of the wider community.

The Trust Company's Diversity Policy covers the following areas: women in the workforce, age, cultural background and flexible working arrangements. The Trust Company embraces workforce diversity as a source of strength. It is approved by The Trust Company's Board and overseen by the People and Remuneration Committee. Measurable objective are being developed so that progress can be monitored. The workforce of The Trust Company currently comprises a wide range of ages, cultural backgrounds and gender across all roles.

The Trust Company has a Share Trading Policy that applies to the Responsible Entity in relation to trading in units in any of the Schemes. Directors, management and staff of The Trust Company, and the Responsible Entity, are required to seek prior approval of any trading in units in any of the Schemes. The RE Board and management ensure that any actual or potential conflicts are appropriately identified, managed and disclosed. The Responsible Entity maintains a declaration of interests register which is confirmed by the RE Board at the start of each board meeting.

Principle 4 – Safeguard integrity in financial reporting

The Trust Company has an Audit, Risk and Compliance Committee ("**ARCC**"). ARCC also acts as the Compliance Committee for each of the Schemes pursuant to part 5C of the Act. ARCC is comprised of four members with a majority of independent non-executive directors. The members of ARCC are Roger Davis (Chairman), Bruce Corlett and John Macarthur-Stanham (all Directors of The Trust Company) and an independent non-executive committee member, John Richardson. ARCC meets at least quarterly. ARCC may have such additional meetings as the Chairman may decide in order to fulfil its role. The ARCC Charter sets out its role and responsibilities.

The declarations under section 295A of the Act ('CEO and CFO declarations') provide formal statements to the RE Board in relation to each of the Schemes that are listed on the ASX (refer to Principle 7). The declarations confirm the matters required by the Act in connection with financial reporting. The Responsible Entity receives appropriate declarations from the service providers involved in financial reporting for the Schemes, including the Investment Manager.

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

Principle 5 – Make timely and balanced disclosure

In relation to the Trust, the Responsible Entity, as part of The Trust Company, has a continuous disclosure policy to ensure compliance with the continuous disclosure requirements of the Act and the ASX Listing Rules. 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 is responsible for assisting 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.

CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)

Principle 6 – Respect the rights of unitholders

The Responsible Entity is committed to providing both unitholders and the market with timely information so that the market is continuously and sufficiently informed of all market sensitive information in relation to each of the Schemes. 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 the Schemes.

The Responsible Entity handles any complaints received from unitholders in accordance with The Trust Company'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.

Principle 7 – Recognise and manage risk

The Responsible Entity, as part of The Trust Company, values the importance of robust risk management systems. The Responsible Entity and The Trust Company have established ARCC, acting as the Compliance Committee for each of the Schemes pursuant to part 5C of the Act, to assist the RE Board to discharge its risk management and compliance responsibilities.

As noted above, ARCC is responsible for the oversight of risk management, internal control systems and compliance matters for the Responsible Entity and The Trust Company. It also reviews internal and external audit processes and reports. ARCC meets regularly with The Trust Company's Executive Team, senior management and external advisers, and reports directly to The Trust Company's Board. The Responsible Entity's management (as well as The Trust Company's Executive Team and the risk and compliance function) regularly report any material business risks to the RE Board and to ARCC through its quarterly risk and compliance reporting process. Significant matters arising during a quarter are addressed by management and escalated as appropriate.

The Responsible Entity, as part of The Trust Company, has a formal risk management program in place and maintains a current risk register. The program includes policies and procedures to identify and address material financial and non-financial risks. The Trust Company's Board and ARCC are responsible for overseeing compliance with the risk management program and its continuous evolution. The Trust Company also maintains an independent 'internal' audit function which reports directly to ARCC and The Trust Company's Board if necessary. This service is provided by KPMG.

The declarations under section 295A of the Act ('CEO and CFO declarations') provide formal statements to the RE Board to confirm that the financial statements of each of the Schemes that are listed on the ASX are founded on a sound system of risk management, internal compliance and controls which implement the policies adopted by the RE Board. In addition they confirm the Responsible Entity's risk management and control system is operating efficiently and effectively in all material respects. The Responsible Entity receives appropriate declarations from the service providers involved in financial reporting for the Schemes, including the Investment Manager.

Principle 8 – Remunerate fairly and responsibly

The fees and expenses which the Responsible Entity is permitted to pay out of the assets of the Schemes are set out in the constitution and offer documents, if applicable, for each of the Schemes. Fees and expenses for the benefit of the Responsible Entity are required to be considered and disclosed as related party transactions. Fees and expenses paid out of the assets of the Schemes are unrelated to the remuneration of the Responsible Entity's Directors, management and staff which is separately determined by The Trust Company. As noted above, the Responsible Entity's Directors, management and staff are provided by The Trust Company and are remunerated by The Trust Company and not by the Responsible Entity or any of the Schemes operated by the Responsible Entity.

CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)

Principle 8 – Remunerate fairly and responsibly (continued)

The Trust Company has remuneration policies in place to maintain and attract talented and motivated directors and employees. The policies are designed to improve the performance of The Trust Company. The Trust Company has a People and Remuneration Committee. The Committee is comprised of three independent non-executive directors, with a Chairman who is different to the Chairman of the Board. The Committee has reviewed and approved its charter which sets out its role and responsibilities.

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 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. 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. In order to make distributions from investments redeemed within the Swap, AIT was required to repay the Swap related 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.

Trust Facts

(As at 31 December 2012)

• Gross Assets (GA):	AUD 71m
• Net Assets (NA):	AUD 71m
• Market Cap:	AUD 53m
• Units in Issue:	131m
• NTA / unit:	AUD 0.5414
• Leverage Ratio (GA / NA):	1.01
• Debt outstanding:	USD 0
• % of GA in 'Side Pockets'	37%

Capital Returns per unit:

• Total 2012 Returns:	AUD 0.30
• Post Balance Sheet Return – February 2013	AUD 0.13
• Total Returns since Feb 2009:	AUD 1.43

Distributions to Unitholders:

Two distributions were made to unitholders during 2012 and a further distribution was announced in January 2013. The first, of AUD 0.15 per unit (or AUD 19.6m in total) was made in January 2012; the second, of AUD 0.15 per unit (AUD 19.6m in total) was made in June 2012. Post year end, on 17 January 2013, a further AUD 0.13 per unit (or AUD 17m in total) distribution was announced and this was paid to unitholders on 5 February 2013. This brings the total distributions made to unitholders since the change of mandate to AUD 186.9m (or AUD 1.43 per unit) – representing approximately 140% of AIT's market value as at 31 January 2009 (or 62% of its unaudited net assets at that date).

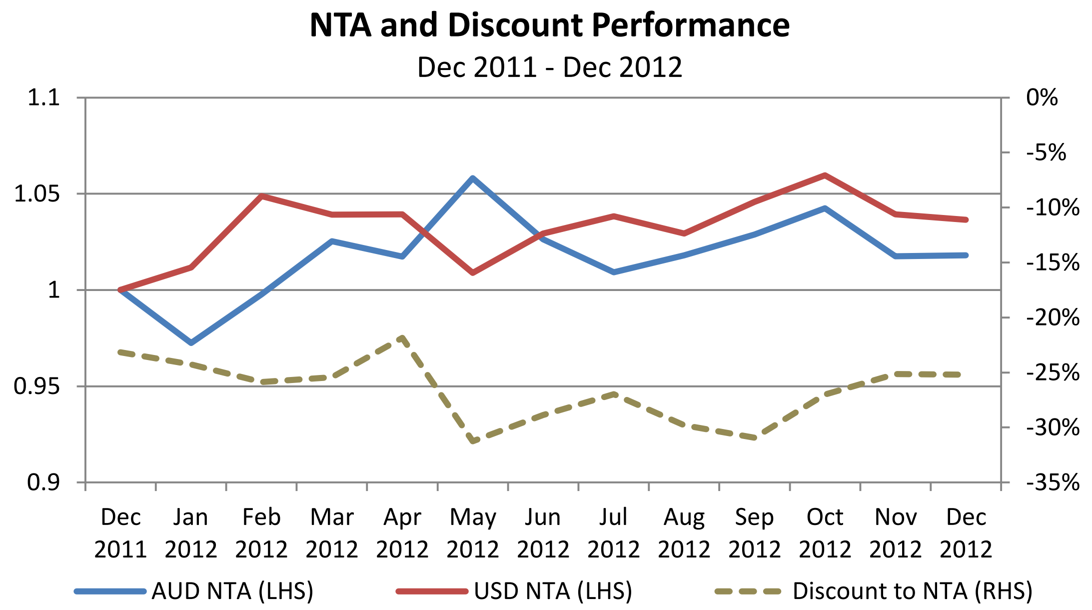
The next substantial scheduled redemption amongst AIT's underlying funds is ESL which is expected to redeem in full at year end. However, Laxey do expect payments to be received from a number of liquidating and side pocket positions over the year. Distributions remain a priority for the fund and will continue to be made as soon as these future redemption proceeds allow.

Fund Performance

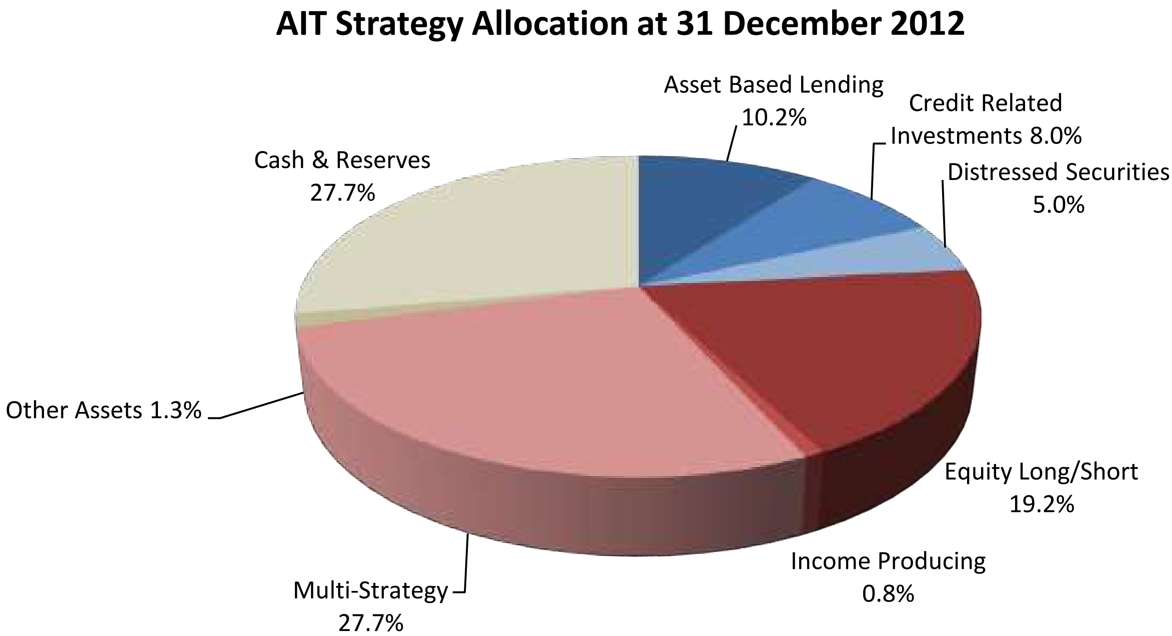
AIT's NTA fell from AUD 0.8265 on 31 December 2011 to AUD 0.5414 on 31 December 2012. Adjusting for the two returns of capital during the year, AIT's NTA performance was +1.9% for 2012. As AIT reports in AUD while the majority of AIT's assets are USD denominated, one important factor in AIT's NTA performance is the AUD-USD exchange rate. In 2012, the AUD strengthened by 1.8% against the USD which had a negative effect on AIT's NTA -- as can be seen from the performance comparison of NTA in USD and AUD terms.

At year end, AIT's net currency exposure was 89.9% to USD reporting funds, assets and liabilities, and 10.1% to AUD reporting funds, assets and liabilities. Note that the value of the underlying funds may be affected by exchange rate movements in their investments; on a 'look through' basis, AIT's exposure to both the USD and AUD is overstated as there is no general policy amongst AIT's underlying managers to hedge currency exposures of underlying investments to the reporting currency.

The AUD and USD NTA performance (NTAs rebased to 1 at 31 December 2011, and adjusted for February and June 2012 returns of capital, unaudited NTAs used for January to November), together with the discount performance of AIT from 31 December 2011 to 31 December 2012 is given below. AIT's unit price to NTA discount gradually widened for the first three quarters of 2012 before tightening to levels near those at the start of the year. By way of comparison, AIT was trading at discounts of over 50% in late 2008 / early 2009.



Portfolio Review



Cash and Other Assets:

With the completion of debt repayment and the termination of the secondary BNP swap, AIT now has free use of its cash (less reserves). The above graph gives AIT's cash position as 27.7% of gross assets. This includes the AUD 17m for the February 2013 distribution; it also includes some cash assets pending final settlement that are not freely available for use and cash held within the swap. 'Other Assets' largely consists of receivables; this is cash from redeemed funds that has yet to come through to AIT's accounts.

AIT's Top Holdings as at 31 December 2012:

FUND NAME	STRATEGY	% OF GROSS ASSETS
ESL Investments	Equity Long/Short	19.2%
Drawbridge Special Opportunities	Asset Based Lending	10.2%
TPG-Axon Partners Offshore Ltd	Multi-Strategy	5.4%
Cerberus International Ltd	Distressed Securities	3.7%
Eton Park Overseas Fund Ltd	Multi-Strategy	3.7%
GSO Special Situations Overseas	Credit Related Investments	3.6%
Och-Ziff Global Special Investments	Multi-Strategy	3.5%
Perry Partners International	Multi-Strategy	3.3%
Everest Absolute Return Fund	Multi-Strategy	2.5%
Fortress Partners Fund LP	Multi-Strategy	2.5%
TOTAL		57.6%

All the above positions are held within the Macquarie Swap. The remainder of the portfolio consists of numerous smaller investments with varying degrees of liquidity. Laxey maintains contact with the fund managers of each of the investments in order to better understand AIT's underlying exposure and its liquidity and risk profiles.

Details of AIT's Top Holdings:

ESL Investments (19.2% of Gross Assets): ESL has a number of large equity investments in retail companies, all primarily based in North America. These investments include Sears, the department store, and AutoNation, which sells, finances and services new and used vehicles as well as smaller holdings in Gap, Autozone and Capital One. The fund imposed a gate on redemptions during the year, and as a result, 25% of the position was received at year end in cash and stock. The stock received has been liquidated and AIT received USD 4.9m in total from the distribution. As a result of the gate, the remainder will be redeemed at end 2013; this final portion of the redemption cannot be gated further.

Drawbridge (10.2% of Gross Assets): An opportunistic diversified portfolio of investments primarily made in the United States, Western Europe and the Pacific region, focusing on asset-based transactions, loans and corporate securities. This fund is in liquidation. The majority of the assets are or were held to maturity and Drawbridge has been making regular payments to AIT in line with expectations. The fund also has exposure to a number of side pocket positions which will take longer to fully liquidate, and as such these make up a larger proportion of the fund as the main fund liquidates. During 2012, AIT received approximately USD 4.5m from the fund.

TPG-Axon (5.4% of Gross Assets): TPG is a multi-strategy fund. It has returned the full amount of non-side pocketed positions to AIT and the remaining exposure is to six separate side pocket investments in a range of sectors and countries. In 2012, TPG returned USD 2.4m to AIT, and completely exited one side pocket. Post year end, TPG returned the majority of one of the positions, representing approximately USD 0.7m.

Cerberus International (3.7% of Gross Assets): Cerberus predominantly makes investments in distressed securities, including those facing financial and operating difficulties and it has also made investments in secured debt, bank debt and mortgage related securities. Due to large volumes of redemption requests in 2008, Cerberus held back the majority of AIT's position as a liquidating investment, and AIT currently receives small payments on a regular basis. Cerberus returned approximately USD 0.5m to AIT in 2012.

Eton Park Overseas Fund (3.7% of Gross Assets): AIT no longer has exposure to Eton Park's main funds; the only exposure is to side pocket positions Across AIT's holdings there are 18 separate side pocket positions. Over 2012, Eton Park returned USD 1.8m to AIT.

GSO Special Situations (3.6% of Gross Assets): GSO is an alternative asset manager specializing in credit related investment. It manages a multi-strategy credit hedge fund, a mezzanine fund, a senior debt fund and various CLO vehicles. In March 2008, Blackstone acquired GSO Capital Partners LP and merged its own Credit Investment operation into GSO. AIT's investment in the Special Situations fund sits in the multi-strategy hedge fund; the main investment has now been redeemed, and the remaining investments – largely in private equity investments – are side-pocketed. Over 2012, GSO returned USD 1.1m to AIT. The manager has advised that a significant portion of the remaining investment (approximately 50%) will be returned to AIT within the first few months of 2013.

Och-Ziff Global Special Investments (3.5% of Gross Assets): OZ Global Special Investments is a multi-strategy fund with a bias toward making so-called 'special investments' – taking investment positions that may be highly illiquid with a view to medium to long term returns. This fund's geographic focus is primarily though not exclusively toward developed markets and it invests across a variety of sectors. The liquid portion of the fund has already been returned to AIT, and the remaining exposure is to a large range of these special investments. This fund returned approximately USD 0.5m to AIT in 2012.

Perry Partners (3.3% of Gross Assets): Perry Partners is a multi-strategy fund with a principle focus on opportunity and event driven investing in a range of sectors across both credit and equity. The exposure here is to side pocket positions.

Everest Absolute Return Fund (2.5% of Gross Assets): The Everest Absolute Return Fund is invested in a diversified portfolio of absolute return funds. As with AIT itself, the funds held by EARF are spread across a range of investment managers and EARF's strategy exposure includes long/short equity, distressed securities, multi-strategy, managed futures, global macro and arbitrage. The fund was restructured towards the end of 2008. It is currently being managed with a view to returning cash to shareholders. EARF returned AUD 1.8m to AIT in 2012.

Fortress Partners (2.5% of Gross Assets): AIT's exposure here is to a broad range side pocket type investments.

Further Updates:

Following negotiations with One Investment Group ("OIG"), the manager of **EBI Income Fund (EBIIF**), it was agreed that the fund should make an in specie distribution of its remaining assets and that the fund should then be wound up. This process was completed in December 2012, and AIT received cash, an investment in the sub fund, **Everest Babcock & Brown Income Fund (EBBIF)**, as well as a share in a Collateralised Debt Obligation ("CDO") investment; Laxey do not expect to receive any proceeds from the CDO and it is given nil value in AIT's accounts.

As previously disclosed, as former Everest funds both **EBBIF** and **EARF** have advised AIT that Everest Capital Limited ("ECL", now known as Redleaf Capital Limited) has notified both funds that it may seek to exercise certain indemnity rights against the funds' assets that it has in relation to liabilities properly incurred by it arising out of events that took place during the period in which it was trustee of the funds. The current trustee of these funds, One Investment Group ("OIG") has a fiduciary obligation toward ECL in relation to those rights, which if they do arise, rank ahead of unitholders' claims. OIG is currently assessing the claims. ECL has lodged two formal claims which OIG has declined to pay on the basis that they do not believe ECL is entitled to claim under the terms of the relevant deeds. OIG continue to assess the claims and Laxey keep in regular contact with OIG to monitor the situation.

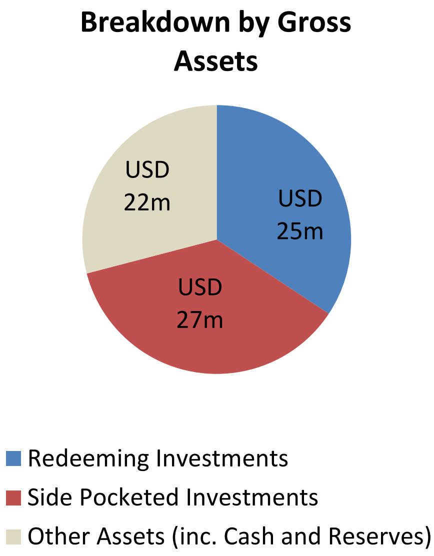
Liquidity Profile and Side Pocket Positions

AIT is debt free and all of the underlying funds have received redemption requests. As mentioned above, distributions were made from redemption in February and October and a further distribution was paid out in February 2013. During the year, one of AIT's funds with a scheduled redemption, ESL gated the redemption with the result that 75% of expected proceeds were delayed from end 2012 to end 2013. Note that no further restrictions can be placed on the redemption of this fund. As well as scheduled redemptions, Laxey has worked with funds to achieve additional liquidity, as in the case of EBIIF's in specie distribution and wind up. With the majority of fixed redemption date funds redeemed, AIT is increasingly 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.

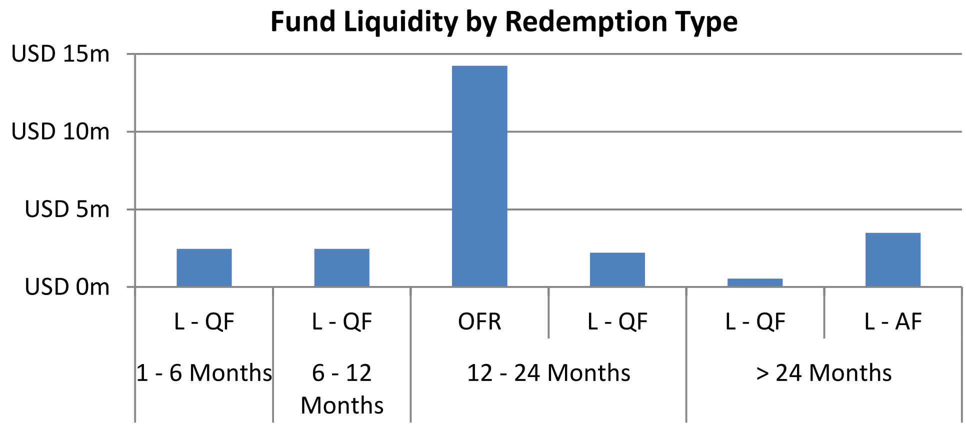
Liquidating funds are those which, because of large volumes of redemption requests, were forced to close, and realise assets, distributing proceeds to investors as they become available. This dependence on the realisation of assets such as these makes distributions less certain. Laxey classifies these assets into those which make regular (but not guaranteed) distributions – usually on a quarterly basis – and those which only make ad hoc distributions 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. AIT's exposure to side pockets has increased during AIT's realisation process as they have been slower to liquidate than the main funds, and because they have risen in value more substantially than the main funds following severe writedowns during 2008 and 2009. Given that these side pocket assets cannot be easily liquidated, that there is often some doubt as to the exact date of their realisation, and that they may not be redeemed at the request of the investor, Laxey treats these investments separately to the main funds in determining the liquidity profile of AIT. As with all fund positions, Laxey monitor and speak to the underlying investment funds on a regular basis in order to better understand the portfolio's risk and its liquidity profile.

37% of AIT's assets are in side pocket investments. If the AUD 17m February 2013 distribution is excluded, that number rises to 47% excluding any redemptions post year end. Given the nature of their liquidity they are classed separately to the main funds for liquidity purposes. The opposite chart illustrates this division.



The remainder of AIT's non-cash exposure (34% of gross assets or 44% excluding the February distribution payment) is broken down in the following graph:



Glossary

MDR - AF: Multi date redemption - Annual flow;
MDR - QF: Multi date redemption - Quarterly flow;
OFR: Once-off full redemption;

L - AF: Liquidating Fund - Ad hoc flow;
L - QF: Liquidating Fund - Quarterly flow

The above chart uses the best information available to Laxey, but given the nature of fund redemptions – there is only one scheduled redemption – the liquidity profiles may be subject to change in light of new information or events.

5% of AIT's gross assets (versus 6% at December 2011) are classed as liquidating with an ad hoc flow of distributions - bringing AIT's total exposure to assets with difficult to determine liquidity to 41% of gross assets (or 53% excluding the February 2013 distribution payment).

This leaves 30% of current gross assets exposed to funds with a – relatively – predictable liquidity timetable (38% excluding the February 2013 distribution payment); the most significant event expected for 2013 is the final redemption of ESL which represents 19% of AIT's gross assets as at year end (25% excluding the February 2013 distribution payment). Note none of these figures take account for possible early exits or delays to managers' expectations; there is a chance that some positions may be redeemed at an earlier (or later) than expected date.

Outlook

Distributions remain a priority for the trust; further announcements will be made as soon as redemption proceeds allow. Laxey is also working to review and reduce the ongoing costs of running the trust, in line with the reduced size of the trust itself.

Signed by Colin Kingsnorth
Laxey Partners (UK) Limited

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

In relation to our audit of the financial report of Alternative Investment Trust for the year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
26 February 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Consolidated** Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
Investment income			
Net gains/(losses) on financial instruments held at fair value through profit or loss	4	3,578	2,286
Net gains/(losses) on loans and receivables		-	(691)
Interest income		450	1,114
Foreign exchange gain/(loss) on loans and receivables		-	(200)
Other foreign exchange gains and losses		41	79
Other investment income	3	-	4
Total investment income/(loss)		4,069	2,592
Expenses			
Responsible Entity fees	14	87	134
Management fees	14	944	1,526
Other operating expenses	3	1,102	1,214
Total operating expenses		2,133	2,874
Operating profit/(loss) attributable to unitholders		1,936	(282)
Financing costs attributable to unitholders			
Interest expense		-	-
Change in net assets attributable to unitholders		1,936	(282)
Change in net assets attributable to:			
Unitholders		(1,953)	95
Minority interest		17	187
Total Comprehensive Income		**-**	**-**
		Cents	Cents
Earnings/(loss) per share for profit from continuing operations			
Basic and diluted earnings/(loss) per unit	5	1.49	(0.07)

The above Statement of comprehensive income for the year ended 31 December 2012 covered the Consolidated Entity for the period 1 January 2012 to 20 December 2012. From 20 December 2012 the results represents those of AIT only.

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**Consolidated As at 31 December 2012 $'000**	31 December 2011 $'000
Assets			
Cash and cash equivalents	8	6,319	19,983
Receivables	9	50	55
Financial assets at fair value through profit or loss	6	64,883	88,884
Total assets		71,252	108,922
Liabilities			
Payables	10	493	534
Total liabilities (excluding net assets attributable to unitholders)		493	534
Net assets attributable to unitholders		70,759	108,388
Represented by:			
Units on issue		453,078	492,286
Undistributed losses to unitholders		(382,319)	(384,272)
Minority interest		-	374
		70,759	108,388

Following the termination of EBIIF on 20 December 2012, AIT no longer has any investments over which it has control and as such the Statement of Financial Position as at 31 December 2012 covers AIT as a standalone entity only, whereas the Statement of Financial Position as at 31 December 2011 includes the assets and liabilities of EBIIF (which at the time was controlled by AIT).

Amounts and disclosures in the Statement of Financial position, and in the accompanying notes, as at 31 December 2012 are for AIT only (as the parent entity); the comparative amounts and disclosures as at 31 December 2011 are for AIT and EBI (which was a controlled entity) at that time.

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	Consolidated			
	Units on issue $'000	**Undistributed income/(loss) $'000**	**Minority interest $'000**	**Total $'000**
At 1 January 2012	492,286	(384,272)	374	108,388
Return of capital	(39,208)	-	(357)	(39,565)
Change in net assets attributable to unitholders	-	1,953	(17)	1,936
As at 31 December 2012	**453,078**	**(382,319)**	**-**	**70,759**

	Consolidated			
	Units on issue $'000	Undistributed income/(loss) $'000	Minority interest $'000	Total $'000
At 1 January 2011	561,548	(384,177)	5,649	183,020
Return of capital	(69,262)	-	(5,088)	(74,350)
Change in net assets attributable to unitholders	-	(95)	(187)	(282)
As at 31 December 2011	**492,286**	**(384,272)**	**374**	**108,388**

The above Statement of changes in net assets attributable to unitholders for the year ended 31 December 2012 covered the Consolidated Entity for the period 1 January 2012 to 20 December 2012. From 20 December 2012 the results represents those of AIT only.

The above consolidated statement of changes in net assets attributable to unitholders should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	**Consolidated Year ended 31 December 2012 $'000**	31 December 2011 $'000
Cash flows from operating activities			
Interest received		450	1,994
Other income received		1	13
Payment of Management and Responsible Entity fees		(1,019)	(2,410)
Other expenses paid		(1,155)	(1,421)
GST received		4	38
Net cash used in operating activities	7	**(1,719)**	**(1,786)**
Cash flows from investing activities			
Proceeds from loss of control of subsidiaries		410	-
Proceeds from sale of investments		27,169	83,517
Net cash provided by investing activities		**27,579**	**83,517**
Cash flows from financing activities			
Cash outflow through returns of capital		(39,565)	(74,350)
Net cash used in financing activities		**(39,565)**	**(74,350)**
Net (decrease)/increase in cash and cash equivalents		(13,705)	7,381
Cash and cash equivalents at beginning of the year		19,983	12,653
Effects of foreign currency exchange rate changes on cash and cash equivalents		41	(51)
Cash and cash equivalents at the end of the year	8	**6,319**	**19,983**

The above Statement of cash flows for the year ended 31 December 2012 covered the Consolidated Entity for the period 1 January 2012 to 20 December 2012. From 20 December 2012 the results represents those of AIT only.

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

Alternative Investment Trust (the “Trust” or “AIT”) is an Australian registered managed investment scheme which up until 20 December 2012 comprised of the entity controlled by AIT (known as “the Consolidated Entity”) and is also listed on the Australian Securities Exchange (ASX code AIQ). AIT was constituted on 7 April 2005.

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 15, 20 Bond 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 26 February 2013.

1. 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. All references to Consolidated Entity as far as they relate to disclosures pertaining to the Statement of Financial Position as at 31 December 2012 are made for comparative purposes and comprise the assets and liabilities of AIT only.

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) Principles of consolidation and deconsolidation of a subsidiary

The consolidated financial statements incorporate the assets and liabilities of the entities controlled by AIT at year end, and the results of those controlled entities for the year then ended. Following the termination of EBIIF on 20 December 2012, AIT no longer has any investments over which it has control and as such the Statement of Financial Position as at 31 December 2012 covers AIT as a standalone entity only, whereas the Statement of Financial Position as at 31 December 2011 includes the assets and liabilities of EBIIF (which at the time was controlled by AIT).

Subsidiaries are fully consolidated from the date on which control is obtained by AIT and cease to be consolidated from the date on which control is transferred.

The effects of all transactions between entities in the consolidated group are eliminated in full. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

Noncontrolling interests in the equity and earnings or losses of a consolidated subsidiary are shown separately in the Consolidated Statement of financial position, Consolidated Statement of changes in net assets attributable to unitholders and Consolidated statement of comprehensive income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) 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.

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.

(d) 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.

(e) Revenue

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

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

(f) 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.

(g) Receivables

Receivables may include amounts for interest, dividends 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.

(h) 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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) 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.

Swap receivable (Underlying Investment Portfolio)
The financial assets of AIT comprise 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 Comprehensive Income.

Units in controlled entities and unlisted unit trusts
Investments in controlled entities are recorded at the net asset value, which represents the fair value of the underlying investments. Movements in the fair value are recognised in the Statement of 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.

(j) 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.

(k) 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.

(l) 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 Comprehensive Income as finance costs attributable to unitholders.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) 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.

(n) 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. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Current market prices are used to determine recoverable amount.

(o) 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 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 uses 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 6.

(p) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) New accounting standards and interpretations in issue not yet effective

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 period ended 31 December 2012.

AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' – AASB 9 introduces new requirements for classifying and measuring financial assets including debt instruments and equity instruments. The revised accounting standard is applicable for accounting periods beginning on or after 1 January 2015. The Responsible Entity does not expect this will have a significant impact on the Trust's financial statements.

AASB 10 'Consolidated Financial Statements' – AASB 10 requires a parent to present consolidated financial statements as those of a single economic entity, replacing the previously contained AASB 127 'Consolidated and Separate Financial Statements' and INT-112 'Consolidation – Special Purpose Entities'. The Standard identified the principles of controls, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. The revised accounting standard is applicable for accounting periods beginning on or after 1 January 2013. The Responsible Entity does not expect this will have a significant impact on the Trust's financial statements.

AASB 12 'Disclosure of Interests in Other Entities' – AASB 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The revised accounting standard is applicable for accounting periods beginning on or after 1 January 2013. The Responsible Entity does not expect this will have a significant impact on the Trust's financial statements.

AASB 13 'Fair Value Measurement' and 'AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13' – AASB 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The revised accounting standard is applicable for accounting periods beginning on or after 1 January 2013. The Responsible Entity does not expect this will have a significant impact on the Trust's financial statements.

Standards and interpretations that are not expected to have a material impact on the Trust have not been included.

2. SEGMENT INFORMATION

AASB 8 'Operating Segment' 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.

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:

	Consolidated Year ended	
	31 December 2012 $'000	31 December 2011 $'000
Operating segment		
Investment management:		
Attributable to Australia	4,069	2,946
Attributable to foreign countries	-	(354)
Total investment income/(loss)	4,069	2,592

3. OTHER INCOME AND EXPENSES

	Consolidated Year ended 31 December 2012 $'000	31 December 2011 $'000
Other expenses		
Professional fees	517	556
Fund administration and custody expenses	426	465
Other general and administrative expenses	89	93
Auditor's remuneration	70	100
Total other operating expenses	1,102	1,214

	Consolidated Year ended 31 December 2012 $'000	31 December 2011 $'000
Other investment income/(expense)		
Other investment income/(expense)	-	4
Total other investment income/(expense)	-	4

4. NET GAINS/(LOSSES) ON FINANCIAL INSTRUMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	Consolidated Year ended 31 December 2012 $'000	31 December 2011 $'000
Financial instruments		
Fair value gains/(losses) on Total Return Swap	3,575	2,555
Net gains/(losses) on direct investments designated as fair value through profit or loss	3	(259)
Net gain/(losses) on forward designated as fair value through profit or loss	-	(10)
Total net gains/(losses) on financial instruments held at fair value through profit or loss	3,578	2,286

5. 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.

	Consolidated Year ended 31 December 2012	31 December 2011
Profit/(loss) attributable to unitholders ($'000)	1,953	(95)
Weighted average number of units on issue ('000)	130,692	130,692
Basic and diluted earnings/(loss) per unit in cents	1.49	(0.07)

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

6. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	Consolidated As at 31 December 2012 $'000	Consolidated As at 31 December 2011 $'000
Financial assets		
Underlying Investment Portfolio	64,336	87,833
Unlisted Managed Fund	-	1,051
Direct Investment in Portfolio Fund (EBBIF New Class C)	547	-
Total financial assets held at fair value through profit or loss	64,883	88,884

Investments in unlisted managed funds (including in unlisted managed funds that have suspended daily redemptions) are recorded at the net asset value per unit as reported by the manager of such funds.

Direct Investment in Portfolio Fund (EBBIF New Class C) is fair valued 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 were made by the management on valuation.

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 2012 and 31 December 2011.

	Consolidated As at 31 December 2012			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Underlying Investment Portfolio	-	-	64,336	64,336
Direct Investment in Portfolio Fund (EBBIF New Class C)	-	-	547	547
Total financial assets held at fair value through profit or loss	-	-	64,883	64,883

Consolidated – assets measured on a recurring basis using significant unobservable inputs (Level 3):

	Underlying Investment Portfolio $'000	**Unlisted Managed Fund $'000**	**Direct Investment in Portfolio Fund (EBBIF New Class C) $'000**	**Total $'000**
At 1 January 2012	87,833	1,051	-	88,884
Net gain/(loss)	3,575	-	3	3,578
Return of Capital	-	-	-	-
Transfers (In-specie distribution)	-	(1,051)	544	(507)
Sales	(27,072)	-	-	(27,072)
As at 31 December 2012	**64,336**	**-**	**547**	**64,883**

In addition to the financial assets held at fair value through profit and loss disclosed above, AIT holds 365 Class A2 Notes in a Babcock and Brown CDO Fund, which are currently valued at $nil. The Investment Manager does not expect AIT to receive any proceeds from the CDO and it is given nil value in these financial statements. This investment is considered to be a level 3 investment.

6. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

	Consolidated As at 31 December 2011			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Underlying Investment Portfolio	-	-	87,833	87,833
Unlisted Managed Fund	-	-	1,051	1,051
Total financial assets held at fair value through profit or loss	-	-	88,884	88,884

Consolidated – assets measured on a recurring basis using significant unobservable inputs (Level 3):

	Unlisted Managed Fund $'000	**Underlying Investment Portfolio $'000**	**Total $'000**
At 1 January 2011	6,408	152,569	158,977
Net gain/(loss)	(259)	2,555	2,296
Return of Capital	(5,098)	-	(5,098)
Sales	-	(67,291)	(67,291)
As at 31 December 2011	**1,051**	**87,833**	**88,884**

There were no transfers between levels during the year (2011: $ nil).

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

	Consolidated Year ended	
	31 December 2012 $'000	31 December 2011 $'000
Reconciliation of profit/(loss) to net cash used in operating activities		
Change in net assets attributable to unitholders	1,936	(282)
Fair value (gain)/loss on Total Return Swap	(3,575)	(2,555)
Fair value (gain)/loss on direct financial assets	(3)	259
Net (gain)/loss on forwards	-	10
Net (gain)/loss on loans and receivables	-	691
Foreign exchange (gain)/loss	(41)	121
(Increase)/decrease in receivables	5	927
(Decrease)/increase in payables	(41)	(957)
Net cash used in operating activities	(1,719)	(1,786)

8. CASH AND CASH EQUIVALENTS

	Consolidated As at	
	31 December 2012 $'000	31 December 2011 $'000
Domestic cash at bank	4,793	19,824
Foreign currency holdings	1,526	159
Total cash and cash equivalents	6,319	19,983

9. RECEIVABLES

	Consolidated As at 31 December 2012 $'000	31 December 2011 $'000
GST recoverable	29	33
Other receivables	21	22
Total receivables	50	55

No loss has been recognised in respect of receivables during the year ended 31 December 2012 (2011: nil).

10. PAYABLES

	Consolidated As at 31 December 2012 $'000	31 December 2011 $'000
Amounts owing to Responsible Entity	7	20
Management fees	84	59
Fund administration and custody expenses	51	88
Legal expenses	56	8
Other payables	295	359
Total payables	493	534

11. UNITS ON ISSUE

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

	Parent As at			
	31 December 2012 No.	31 December 2011 No.	**31 December 2012 $'000**	31 December 2011 $'000
Opening balance	130,692,470	130,692,470	108,014	177,371
Return of capital	-	-	(39,208)	(69,262)
Change in net assets attributable to unitholders	-	-	1,953	(95)
Closing balance	130,692,470	130,692,470	70,759	108,014

12. 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.

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 Consolidated Statement of Financial Position.

Formerly, AIT had a single directly held investment in EBIIF, of which AIT held 73%. During the year ended 31 December 2012, the trustee of the EBIIF terminated EBIIF and made a prorated in-specie distribution of the remaining assets to its unitholders. Following the payment of the in-specie distribution, AIT's 73% holding in EBIIF was redeemed in full and as a result at year-end the Consolidated Entity no longer had an investment in EBIIF. As part of in-specie distribution AIT received:

- $409,933.15 in cash;
- 33,191,268.7861 EBBIF New Class C units, valued at approximately $544,337; and
- 365 Class A2 Notes in a Babcock and Brown CDO Fund, which are currently valued at $nil.

One Investment Group Limited ("OIG"), the current trustee of EBBIF, has advised investors that it is undertaking an orderly realisation of the fund's remaining assets and will distribute proceeds in accordance with the Trust Deed. Laxey continues to be in regular contact with OIG, with a view to understanding their plans for the wind-up of EBBIF.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(a) Credit risk (continued)

Risk concentrations of credit risk exposure

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

2012 Consolidated	**Australia A$'000**	**US A$'000**	**Total A$'000**
Cash and cash equivalents	4,793	1,526	6,319
Receivables	50	-	50
Financial assets at fair value through profit or loss	64,883	-	64,883
Total	69,726	1,526	71,252

The credit exposure of the financial assets designated as fair value through profit or loss in Australia represents the intrinsic value of the Total Return Swap of $ 64,336,170 (2011: $87,832,822), being the fair value of the Underlying Investment Portfolio. This credit risk is mitigated by the fact that assets with a total value of $76,803,445 (2011: $ 111,805,541) are held by third party custodians and subject to first ranking changes in favour of the Responsible Entity.

2011 Consolidated	**Australia A$'000**	**US A$'000**	**Total A$'000**
Cash and cash equivalents	19,824	159	19,983
Receivables	55	-	55
Financial assets at fair value through profit or loss	88,884	-	88,884
Total	108,763	159	108,922

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

	2012 A$'000	2011 A$'000
Financial services	547	1,051
Total	547	1,051

(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. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate.

The table below analyses AIT's financial liabilities into relevant maturity groupings based on the remaining period from 31 December 2012 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.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(b) Liquidity and cash flow risk (continued)

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
Consolidated				
At 31 December 2012				
Payables	493	-	-	493
Total financial liabilities	493	-	-	493
At 31 December 2011				
Payables	534	-	-	534
Total financial liabilities	534	-	-	534

Everest Capital Limited ("ECL", now known as Redleaf Capital Pty Limited), the former trustee of EARF (an investment held within the Underlying Investment Portfolio) and EBBIF ("the Funds"), has lodged formal claims against the Funds together with a number of other former Everest funds. OIG, the current trustee of the Funds, has declined to pay the claims on the basis that they do not believe ECL is entitled to claim under the terms of the relevant trust deeds. OIG continues to assess the claims.

The Responsible Entity advises that the claims are limited to the assets of EBBIF and EARF and are not against AIT itself. As such the impact of the claims made is limited by the assets of EARF and EBBIF – which together account for 3.3% of AIT's net assets. The claims are likely to impact on the time taken by OIG to liquidate EBBIF and EARF.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(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. This risk is managed by ensuring that all activities are transacted in accordance with investment guidelines outlined in this note. Going forward, no new assets are to be sought as the Trust is being wound down and the assets are being sold in an orderly fashion.

(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 at 31 December 2012 on its assets and liabilities highlighting AIT's net exposure to foreign exchange risk.

Consolidated 31 December 2012	**Australian Dollars A$'000**	**US Dollars A$'000**	**Total A$'000**
Assets			
Cash and cash equivalents	4,793	1,526	6,319
Receivables	50	-	50
Financial assets designated as fair value through profit or loss	547	64,336	64,883
Total assets	5,390	65,862	71,252
Liabilities			
Payables	323	170	493
Total liabilities (excluding net assets attributable to unitholders)	323	170	493
Net asset attributable to unitholders	5,067	65,692	70,759
Total foreign currency exposure	-	65,692	65,692

At 31 December 2012, 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.

Consolidated 31 December 2012	**Australian Dollars A$'000**	**US Dollars A$'000**	**Total A$'000**
Increase of 10%	-	6,569	6,569
Decrease of 10%	**-**	(6,569)	(6,569)

12. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(i) Foreign exchange risk (continued)

Consolidated 31 December 2011	**Australian Dollars A$'000**	**US Dollars A$'000**	**Total A$'000**
Assets			
Cash and cash equivalents	19,824	159	19,983
Receivables	55	-	55
Financial assets designated as fair value through profit or loss	1,051	87,833	88,884
Total assets	20,930	87,992	108,922
Liabilities			
Payables	339	195	534
Total liabilities (excluding net assets attributable to unitholders)	339	195	534
Net asset attributable to unitholders	20,591	87,797	108,388
Total foreign currency exposure	-	87,797	87,797

Consolidated 31 December 2011	**Australian Dollars A$'000**	**US Dollars A$'000**	**Total A$'000**
Increase of 10%	-	8,780	8,780
Decrease of 10%	-	(8,780)	(8,780)

(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.

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.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(ii) Interest rate risk (continued)

Consolidated 31 December 2012	**Floating Interest rate $'000**	**Fixed interest rate 1-12 months $'000**	**Fixed interest rate Greater than 12 months $'000**	**Non-interest bearing $'000**	**Total $'000**
Assets					
Cash and cash equivalents	6,319	-	-	-	6,319
Receivables	-	-	-	50	50
Financial assets designated as fair value through profit or loss	-	-	-	64,883	64,883
Total assets	6,319	-	-	64,933	71,252
Liabilities					
Payables	-	-	-	493	493
Total liabilities (excluding net assets attributable to unitholders)	-	-	-	493	493
Net exposure	6,319	-	-	64,440	70,759

Consolidated 31 December 2011	**Floating Interest rate $'000**	**Fixed interest rate 1-12 months $'000**	**Fixed interest rate Greater than 12 months $'000**	**Non-interest bearing $'000**	**Total $'000**
Assets					
Cash and cash equivalents	19,983	-	-	-	19,983
Receivables	-	-	-	55	55
Financial assets designated as fair value through profit or loss	-	-	-	88,884	88,884
Total assets	19,983	-	-	88,939	108,922
Liabilities					
Payables	-	-	-	534	534
Total liabilities (excluding net assets attributable to unitholders)	-	-	-	534	534
Net exposure	19,983	-	-	88,405	108,388

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.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(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 2012, 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 $3,244,150 (2011: $4,444,200). 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.

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.

13. 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 6. 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).

13. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(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.

(b) Foreign exchange

AIT is fully exposed to the local currency of the Underlying Investment Portfolio (USD).

14. 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
John Atkin
David Grbin
Andrew Cannane
Rupert Smoker (appointed as an Alternate Director for each of John Atkin, David Grbin, and Andrew Cannane from 20 February 2012)

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.

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

Laxey, the Investment Manager, has charged 0.75% per annum (excluding GST) of average gross assets and 1% of distribution paid to investors (excluding GST) as Investment Manager's Fees. The Responsible Entity Fees and the Investment Manager's Fees in total are not to exceed 1.25% per annum of average gross assets.

	Consolidated As at	
	31 December 2012 ($)	31 December 2011 ($)
Fees paid to the Responsible Entity	87,438	134,201
Fees paid to Laxey	943,897	1,525,941
Custody fees paid to The Trust Company Limited	29,065	27,560
	1,060,400	1,687,702

14. RELATED PARTY TRANSACTIONS (CONTINUED)

Responsible Entity's/Investment Manager's fees (continued)

As of 31 December 2012, the Consolidated Entity had a total of $99,328 (2011: $86,491) 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 (2011: Nil).

15. SUBSIDIARIES

Formerly, AIT had a single directly held investment in EBI Income Fund ("EBIIF"), of which AIT held 73%. EBIIF was consolidated from the date (6 December 2006) on which control was obtained by AIT and all intra-group transactions, balances, income and expenses were eliminated in full on consolidation.

During the year ended 31 December 2012, the trustee of EBIIF terminated EBIIF and made a prorated in-specie distribution of the remaining assets to its unitholders. The in-specie distribution was made on 20 December 2012 and as part of this distribution AIT received:

- $409,933.15 in cash;
- 33,191,268.7861 EBBIF New Class C units, valued at approximately $544,337; and
- 365 Class A2 Notes in a Babcock and Brown CDO Fund, which are currently valued at $nil.

Following the payment of the in-specie distribution, AIT's 73% holding in EBIIF was redeemed in full and as a result at year-end the AIT no longer had an investment in EBIIF. The gain or loss determined on deconsolidation, was calculated as the difference between the sale proceeds and the carrying value of the shares held by AIT and is included in the Consolidated Statement of Comprehensive Income.

AIT's investment in EBIIF was consolidated up to the date of termination and the performance of EBIIF up to that date has been included in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows.

As of 31 December 2012, AIT did not retain any non-controlling interest in EBIIF.

16. AUDITOR'S REMUNERATION

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

	Consolidated Year ended	
	31 December 2012 ($)	31 December 2011 ($)
During the year the auditor of AIT earned the following remuneration:		
Ernst & Young		
Audit and review of financial statements	70,000	100,000
Other assurance services	11,000	11,000
Total remuneration	81,000	111,000

17. SUMMARY PARENT INFORMATION

	Parent Year ended **31 December 2012 $'000**	31 December 2011 $'000
Assets		
Current assets	6,369	19,664
Financial assets at fair value through profit or loss	64,883	88,834
Total Assets	**71,252**	**108,498**
Liabilities		
Current liabilities (excluding net assets attributable to unitholders)	493	484
Net assets attributable to unitholders	70,759	108,014
Total liabilities	**71,252**	**108,498**
Change in net assets attributable to unitholders	1,953	(95)

The amount presented as current assets does not include the financial assets at fair value through profit or loss of the parent entity. While these assets are liquid and could be sold within twelve months, the amount expected to be sold within twelve months cannot be reliably determined.

Current and total liabilities of the parent include net assets attributable to unitholders, which under Australian Accounting Standards has been classified as a liability of the parent. This amount, which is considered to be capital by the Responsible Entity, has been disclosed separately in the table above. Net assets attributable to unitholders has been classified as current on the basis of the contractual maturity, but the actual amount expected to be settled within 12 months cannot be reliably determined.

Issued capital, reserves, and unitholders' equity, profit and loss and total comprehensive income of the parent entity are nil under the measurement requirements of Australian Accounting Standards due to classification of net assets attributable to unitholders as a liability.

Notwithstanding this, the Responsible Entity considers that change in net assets attributable to unitholders represents the appropriate measure of profit using the alternative presentation allowed in the primary statements under AASB 132 Example 7, and this amount has been presented above for the parent entity.

There are no guarantees entered into by the parent entity relating to debts of subsidiaries (2011: nil). As disclosed in Note 18 to the financial statements, there are no contingent liabilities or commitments of the parent entity at the reporting date (2011: nil).

18. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

There are no commitments or contingencies as at 31 December 2012 (2011: nil).

19. SUBSEQUENT EVENTS

Subsequent to year end, the Responsible Entity determined to pay a distribution of 13 cents per unit, being a total of $17 million which was paid to unitholders on 5 February 2013.

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 ("Consolidated Entity"):

(a) the financial statements and notes, set out on pages 21 to 43, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Consolidated Entity as at 31 December 2011 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 the Trust 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 1.

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

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

David Grbin
Director
Sydney, 26 February 2013

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

Report on the Financial Report

We have audited the accompanying financial report of Alternative Investment Trust (the 'Trust'), which comprises the statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the statement of changes in net assets attributable to unitholders and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Trust and the entities it controlled at the year's end or from time to time during the financial year.

Responsible Entity's responsibility for the Financial Report

The directors of 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor assesses internal controls relevant to the Responsible Entity's preparation and fair presentation of the financial report 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 Responsible Entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is attached in the directors' report.

Opinion

In our opinion:

a. the financial report of Alternative Investment Trust is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the Trust's financial position as at 31 December 2012 and of its consolidated performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
Sydney
26 February 2013

UNITHOLDER INFORMATION

The following unitholder information is provided as at 11 February 2013.

A. Distribution of unitholders

Size of holding	Number of unitholders	% of units issued
Ranges		
1 to 1,000	614	0.27%
1,001 to 5,000	374	0.78%
5,001 to 10,000	141	0.83%
10,001 to 100,000	209	4.37%
100,001 and Over	39	93.75%
Total	**1,377**	**100%**

B. 20 Largest unitholders

Rank	Name of unitholder	Number of units	% of units issued
1	NATIONAL NOMINEES LIMITED	34,973,614	26.76%
2	CITICORP NOMINEES PTY LIMITED	24,968,849	19.11%
3	UBS NOMINEES PTY LTD	14,495,252	11.09%
4	BRISPOT NOMINEES PTY LTD	10,258,268	7.85%
5	DAKOTA CAPITAL PTY LTD	7,300,769	5.59%
6	DYNASTY PEAK PTY LTD	5,284,000	4.04%
7	HSBC CUSTODY NOMINEES	4,579,056	3.50%
8	HSBC CUSTODY NOMINEES	3,053,368	2.34%
9	TAYCOL NOMINEES PTY LTD	2,000,000	1.53%
10	BNP PARIBAS NOMS PTY LTD	1,767,111	1.35%
11	UBS WEALTH MANAGEMENT	1,627,251	1.25%
12	MR SIMON ROBERT EVANS	1,267,000	0.97%
13	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	1,122,393	0.86%
14	MRS KATHRYN MARGARET EVANS	1,000,000	0.77%
15	CHRISWALL HOLDINGS PTY LTD	1,000,000	0.77%
16	BUTTONWOOD NOMINEES PTY LTD	1,000,000	0.77%
17	J P MORGAN NOMINEES AUSTRALIA LIMITED	965,000	0.74%
18	MR SIMON ROBERT EVANS & MRS KATHRYN MARGARET EVANS	800,000	0.61%
19	SJA PTY LTD	500,000	0.38%
20	M F CUSTODIANS LTD	450,388	0.34%
Total		**118,412,319**	**90.62%**

UNITHOLDER INFORMATION (CONTINUED)

C. Substantial unitholders

Name of unitholder	Number of units	% of units issued
NATIONAL NOMINEES LIMITED	34,973,614	26.76%
CITICORP NOMINEES PTY LIMITED	24,968,849	19.11%
UBS NOMINEES PTY LTD	14,495,252	11.09%
BRISPOT NOMINEES PTY LTD	10,258,268	7.85%
DAKOTA CAPITAL PTY LTD	7,300,769	5.59%

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
Alexander Carrodus is the company secretary 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 706 and they hold a total 466,606 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 15, 20 Bond 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