

Alternative Investment Trust (Formerly Everest Babcock & Brown Alternative Investment Trust)

ARSN 112 129 218

Financial Report for the Year Ended 31 December 2008

Contents

	Page
DIRECTORS' REPORT	3
AUDITORS' INDEPENDENCE DECLARATION	17
INCOME STATEMENT	22
BALANCE SHEET	23
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	24
CASH FLOW STATEMENT	25
NOTES TO THE FINANCIAL STATEMENTS	26
DIRECTORS' DECLARATION	58
INDEPENDENT AUDIT REPORT	59

DIRECTORS' REPORT

The directors of Permanent Investment Management Limited (PIML), the Responsible Entity of Alternative Investment Trust (formerly Everest Babcock & Brown Alternative Investment Trust) (AIT), present their report together with the consolidated financial report of AIT and its controlled entities (the consolidated entity) for the year ended 31 December 2008.

RESPONSIBLE ENTITY

As of 5 February 2009, the Responsible Entity of AIT is Permanent Investment Management Limited (ABN 45 003278831, AFSL 235150). Prior to this date the Responsible Entity was Everest Capital Investment Management Limited (ECIML or Former Responsible Entity) (ABN 96 112 731 978; AFSL 288360). The registered office and principal place of business of PIML is Level 4, 35 Clarence Street, Sydney NSW 2000.

Appointment of new Investment Manager

Laxey Partners (UK) Ltd (Laxey) was appointed as the new investment manager effective on and from 24 February 2009 by Permanent Investment Management Limited replacing Everest Capital Limited.

PRINCIPAL ACTIVITIES

The consolidated entity is a registered managed investment scheme domiciled in Australia.

The principal activities of the consolidated entity during the year were to achieve a combined exposure to:

- a diversified portfolio of leading international absolute return funds (Underlying Investment Portfolio); and
- direct investments in subordinated debt and equity co-investments which AIT invests in directly or through its 100% owned sub-trusts, EBI Income Fund and EBI Opportunities Fund.

The exposure to the Underlying Investment Portfolio and direct investments are together referred to as the Investment Portfolio.

The Former Responsible Entity used leverage to enhance capital management and increase diversification. During the year leverage was achieved notionally via a total return equity swap (Leverage Facility) and directly through a loan facility provided to EBI Income Fund (Loan Facility).

CORPORATE INFORMATION

Investment approach

The Investment Portfolio comprised exposure to a mix of investment managers and investment strategies including long/short equity, distressed securities, multi strategy, event driven, asset backed lending and direct investments.

Everest Capital Limited (the former Manager) aimed to generate attractive risk adjusted returns over the medium to long term and in all market conditions, with a particular focus on capital preservation.

The former Manager's process of selecting absolute return funds incorporated the utilisation of its worldwide industry network, extensive research, due diligence and face to face meetings with potential investment managers.

The former Manager's strategy focused on investing in absolute return funds which it believed were leading international absolute return funds based on quality, competence and motivation of their people, track record, strong risk management capabilities and business infrastructure. A further criterion was that the principals had a significant amount of their own net worth invested in their funds, therefore being motivated to maximise risk adjusted performance, rather than merely increase assets under management.

When directly investing in assets, the former Manager sought to invest in quality assets with one or more of the following characteristics; a strong market position and demonstrated financial performance, solid asset value, opportunistic characteristics, and a quality and experienced management team.

Laxey will manage AIT according to AIT's investment strategy and will undertake an orderly wind down of AIT with a program for the realisation of assets with a view to optimising the return on investments to unitholders.

Attractive asset class

Absolute return strategies involve flexible investment mandates that provide the potential, over the medium to long term, to generate attractive risk adjusted returns in rising and falling markets, rather than returns relative to a market index that may result in either positive or negative performance. Absolute return strategies have historically exhibited low correlation to returns from traditional asset classes such as Australian and international shares, property and bonds and therefore can provide diversification benefits within a balanced portfolio.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Buy-Back

On 28 May 2008 at the Annual General Meeting of AIT, the unitholders approved a resolution for the Former Responsible Entity, at its discretion, to conduct a buy-back (in addition to the buy-back announced on 7 August 2007) of up to 35,838,484 fully paid units in AIT during the 12 months following the passing of the resolution. This buy-back was required to be conducted in the ordinary course of trading on the ASX at a price to be determined by the Former Responsible Entity but not to exceed 105% of the average market price of the units in the 5 trading days prior to any purchase.

At 30 June 2008, the Former Responsible Entity bought back and cancelled 5,824,470 units for the total consideration of \$17,103,375. Units were purchased at an average price of \$2.93 which represented a discount of 23% to the NTA at 30 June 2008 (\$3.80).

Legal Proceedings

A general meeting of AIT was scheduled for 21 November 2008 to consider three resolutions being, the winding up of AIT, the removal of Everest Capital Investment Management Limited as the Responsible Entity of AIT, and the appointment of Permanent Investment Management Limited as the replacement Responsible Entity of AIT. On 21 November 2008, the Chairman of ECIML adjourned the general meeting to 21 January 2009, as it had come to its attention that a significant Unitholder had apparently changed its position and was going to vote in favour of the resolution to replace the Former Responsible Entity.

Following the adjournment, Laxey Partners (UK) Ltd commenced proceedings in the Federal Court of Australia seeking orders that the adjournment of the General Meeting was invalid and the meeting should be reconvened on 5 December 2008.

On 12 December 2008 the Former Responsible Entity announced these proceedings had been settled. Under the terms of the settlement, ECIML and Laxey Partners (UK) Ltd agreed that the General Meeting which commenced on 21 November 2008 was to be reconvened on 30 January 2009 that meeting did in fact take place on 30 January 2009.

AIT Exchange offer

On 29 January 2009 implementation of the AIT Exchange offer took place. Under the offer, AIT unitholders who preferred to maintain their exposure to the continuing AIT investment portfolio and investment strategy elected to exchange their AIT Units for units in a new unlisted trust, the Everest Alternative Investment Trust (EAIT).

The total number of units exchanged under the Exchange Offer was 48,499,951 units, representing approximately 27% of AIT's total units on issue.

A number of documents including the product disclosure statement of EAIT were lodged with the ASX on 23 December 2008.

Change of Responsible Entity of AIT

ECIML, ceased to be the Responsible Entity for AIT on 5 February 2009. The change in Responsible Entity occurred as a result of a resolution passed at a meeting of unitholders held on 30 January 2009. The new Responsible Entity of AIT is Permanent Investment Management Limited.

REVIEW AND RESULTS OF OPERATIONS

During the year, the consolidated entity continued to engage in its principal activities, the results of which are disclosed in the attached financial statements.

The results of the consolidated entity, as represented by the results of its operations, was as follows:

	Consolidated		Parent	
	Year ended		Year ended	
	31 December	31 December	31 December	31 December
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Net operating profit/(loss) from continuing operations	(299,957)	42,616	(299,954)	42,515

DIRECTORS' REPORT (continued)

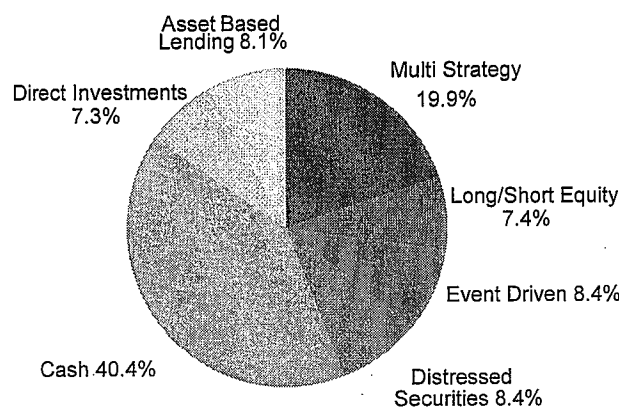
2008 performance summary of consolidated entity			
	Net Tangible Asset (NTA) backing per unit	Distribution	Monthly performance ¹
	\$	\$	%
31 December 2008	2.36	-	(7.81)
30 November 2008	2.56	-	(8.57)
31 October 2008	2.80	-	(15.15)
30 September 2008	3.30	-	(9.84)
31 August 2008	3.66	-	(2.14)
31 July 2008	3.74	-	(1.58)
30 June 2008	3.80	0.065	(2.15)
31 May 2008	3.95	-	1.80
30 April 2008	3.88	-	1.04
31 March 2008	3.84	-	(2.29)
29 February 2008	3.93	-	0.77
31 January 2008	3.90	-	(4.18)
31 December 2007	4.07	-	0.74

1. Distributions paid are included in the calculation of monthly performance, and are rounded to 3 decimal places.

Investment Portfolio

The Investment Portfolio comprised exposure to a mix of investment managers and investment strategies including long/short equity, distressed securities, multi-strategy, event driven, asset backed lending and direct investments.

Strategy Exposure at 31 December 2008



Note: * Exposure numbers may not total exactly due to rounding. Based on the gross value of the Investment Portfolio. Does not include impact of FX, interest rate or equity hedges.

Investment strategy and exposure data as at the first business day of the following month.

Top ten exposures shown on a look through basis, as appropriate.

The Former Responsible Entity advises the following:

During a year of unprecedented economic turmoil, AIT returned a loss of 41.02% for the 2008 calendar year. This

DIRECTORS' REPORT (continued)

compared to a loss of 37.0% on the S&P 500 and 38.7% MSCI World indices. The year was a tale of two halves. In the first half, AIT's managers successfully managed to outperform world markets, posting a loss of -5.04% against -11.9% and -12.8% for the S&P 500 and MSCI World respectively. Several investment managers were able to anticipate the collapse of Bear Stearns and were able to position themselves accordingly. Some managers were able to profit from the collapse through short positions and CDS contracts.

The second half was unprecedented in terms of corporate collapses. The market turmoil of September 2008 triggered a series of events which undermined the absolute return strategies pursued by many of AIT's investment managers. September 2008 marked the US government's seizure of Fannie Mae and Freddie Mac, the collapse of Lehman Brothers and AIG (both major counterparties to the hedge fund industry), the banning of short selling in most major markets (preventing investment managers from initiating new short positions) and the initial rejection of the Bush administration's US\$700 billion rescue package (plummeting confidence in banks).

Each of these events had a direct and immediate impact on the operation of absolute return fund strategies and the value of underlying assets, with credit related investments including bank loans and distressed investments (to which the Fund has a meaningful exposure) faring particularly poorly. Under this environment, our investment managers suffered losses as credit spreads traded to unprecedented distressed levels and traditionally secure bank loans traded to levels never previously witnessed. AIT's losses for the year came directly from the second half, posting a return of -36.9% after leverage, compared to losses of -28.5 and -29.7% on the S&P 500 and MSCI World indices.

The Investment Portfolio currently comprises exposure to a mix of six investment strategies including multi-strategy, long/short equity, event driven, distressed securities, asset backed lending and an allocation to direct investments. During the year, AIT reduced risk in the portfolio in response to deteriorating economic fundamentals and world markets. This resulted in AIT's cash balance rising to 40.4% by 31 December 2008, up from 4% the previous year end.

The Investment Portfolio's largest allocation during the year was to multi-strategy investment managers at 19.9% of the portfolio. At year end, this allocation comprised of 6 investment managers. In the first half of the year, multi-strategy investment managers posted gains with positive contributions from US steel stocks, other industrials whilst covering profitable financial shorts and short credit related positions such as emerging markets, and commercial mortgages. In the second half of the year, multi strategy investment managers faced losses in commodities and financials as the massive government interventions interfered with portfolio hedges. Our investment managers have shifted capital away from merger arbitrage as merger spreads have blown out on fears that merger financing from banks would not be honored. Additionally, the credit crunch has led to many of our investment managers unable to achieve exit events for their side pocket investments as planned, instead leading to write downs to fair value in the current environment.

The Investment Portfolio's second largest allocation was to Event Driven strategies as the fund reduced its exposure to Long/Short equity strategies and the associated direct equity market exposures, whilst focusing on strategies which would profit from announced corporate events and defined catalysts with additional certainty. Accordingly, the investment managers are seeing significant opportunities in credit, in particular bank loans, residential and commercial mortgage credit. Some of our event driven investment managers were negatively impacted by the technical factors impacting the Volkswagen stock price as it temporarily became the largest company by market capitalization. At year end, allocations to Event Driven strategies comprised of four investment managers making up 8.4% of the Investment Portfolio.

As part of the ongoing portfolio construction and management review process, AIT redeemed twelve of its investments across a range of strategies as part of its overall risk reduction process. This included a reduced allocation to Direct Investments from 14% at the beginning of 2008. Direct Investments continue to roll off as they mature. A small allocation to one new multi-strategy manager which met AIT's investment criteria was made in 2008.

For any information on the ongoing Investment Portfolio's performances, please refer to the monthly AIT updates which are released to the ASX and are also available at www.thealternativeinvestmenttrust.com.

EARNINGS PER UNIT

The basic and diluted earnings/(loss) per unit is (166.7) cents [2007: 30.4 cents]

VALUE OF ASSETS AND UNITS ISSUED

The total value of AIT's assets as at year end is \$1,002,803,000 [2007: \$1,308,930,000]. The total number of units issued as at 31 December 2008 is 179,192,421 [2007: 182,550,857]

DIRECTORS' REPORT (continued)

DISTRIBUTION

2009 Interim

There is no interim distribution payable for the period ending 31 December 2008.

2008 Final

AIT announced a distribution of \$11,699,473 which is equal to 6.5 cents per unit for the 6 month period to 30 June 2008. This distribution represents a payment of 100% of taxable income to unitholders. The taxable income arises from net foreign exchange gains from hedging the Investment Portfolio. The Distribution Reinvestment Plan (DRP) was not available for this distribution.

2008 Interim

On 14 January 2008 AIT announced there would not be an interim distribution for the period ending 31 December 2007.

2007 Final

On 30 August 2007 a distribution of \$43,523,594 which is equal to 23.8 cents per unit was paid to AIT unitholders for the 6 month period to 30 June 2007.

Unitholders who elected to participate in the DRP for the period ended 30 June 2007 were issued units at an issue price of \$3.45 which represents a 2% discount to the volume weighted average price of securities for the period of five trading days from and including the ex-date.

RISK MANAGEMENT

The Former Responsible Entity has provided the following:

The directors of the Former Responsible Entity were the principal decision makers for matters involving the risk management framework for AIT. The former Audit & Risk Management Committee of ECIML monitored the risks across AIT. This monitoring included reviews of adherence to investment guidelines, legal obligations and compliance and operational risks. Everest Capital Limited (the former Manager) was primarily responsible for managing risk issues such as operational risk, disaster recovery, credit and counter party risk. The former Manager had established a system for identifying, assessing, monitoring and managing material risk throughout the organisation. This system included AIT's internal compliance and control system.

The former Manager was responsible for risk management procedures and policies across AIT and its investments. These procedures included in depth due diligence analysis of underlying investment manager's or direct assets operational, compliance and risk management aspects, ongoing monitoring of performance, the adherence to disciplined research and portfolio construction policies and the measurement and maintenance of risk diversification across investment strategies, markets and managers.

The former Manager was responsible for detailed due diligence relating to direct investments including business, industry, financial and credit analysis, comprehensive financial models and thorough review and negotiation of loan documentation, contracts and agreements. The former Manager reviewed the activities and information available for each investment on a regular basis.

Investment risks were regularly reviewed by the former Manager's Audit & Risk Management Committee.

The Investment Committee of the former Manager was the principal body for investment decisions and was responsible for dealing with issues arising from any investment risk. All investments were approved by the Investment Committee which included the former Manager's most senior and experienced executives. A submission was made to the Investment Committee only after the investment team had conducted a rigorous analysis and due diligence on both the underlying investment on the construction of the portfolio, or on the potential investment and on any other investment decisions.

Further, the Former Responsible Entity had appointed an External Compliance Committee which consisted of two external members and one internal. All three members of the Committee were investment professionals with extensive investment and compliance experience in the industry. The External Compliance Committee monitored to what extent the Former Responsible Entity and former Manager complied with AIT's compliance plan, it evaluated the adequacy of the compliance plan and recommended changes where appropriate, reported breaches of the compliance plan, the Corporations Act or AIT's constitution to the former Board and to ASIC if necessary.

DIRECTORS' REPORT (continued)

Laxey Partners have provided the following with regards to their Financial Risk Management Objectives and Policies:

The Investment Portfolio is in "run-off" and this process will be managed so as to provide the maximum amount of cash to unitholders over as short a time period as is deemed prudent.

The Investment Portfolio must also comply with agreed guidelines.

Risks arising from holding financial instruments are inherent in AIT's activities, and are managed throughout the process of liquidation.

AIT holds investments 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 its operations.

The Former Responsible Entity entered into derivative transactions, principally a total return equity swap denominated in US dollars (the "Swap") comprising a leverage facility (the "Leverage Facility") and forward currency contracts.

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 by Laxey for the 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 Alternative Investment Trust 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
- AND
- ensuring that transactions are undertaken with as large a number of counterparties as is feasible.

(i) Leverage Facility

The financial instruments of AIT are not transacted on recognised exchanges. The Leverage Facility is transacted with a single counterparty (being Macquarie Bank Limited). AIT therefore has concentration of credit risk to that counterparty for the facility which matures on 31 December 2010. However, AIT mitigates this credit risk through the negotiation and structuring of the Leverage Facility. AIT has been granted first ranking charges over the Underlying Investment Portfolio that are held by the nominee and independent third party sub custodian to hedge the obligations of the counterparty under the Leverage Facility.

In addition as the portfolio is in run-off it is anticipated that this exposure will decline substantially in the future. In fact under the terms of the recently renegotiated Leverage Facility with Macquarie, which acknowledges the revised aims of the Trust, it is not permitted to add to positions in existing funds nor to establish positions in new funds.

(ii) Direct assets

The Former Responsible Entity allocated capital to subordinated debt (through its investments in the EBI Income Fund) which is exposed to risk of default in the event that the borrower is unable to make repayments of either income and/or principal.

In order to assess the degree of credit risk in these investments, the Former Responsible Entity undertook an analysis of the underlying business, industry and financial risks associated with the borrower to determine whether it has the ability to service its debt obligations during the life of the investment. This assessment included the review of due diligence materials, review of financial information including historical financial accounts and financial projections. This assessment was presented to the Former Responsible Entity's Investment Committee which was responsible for the investment decisions.

On behalf of the Responsible Entity, Laxey will undertake an intensive and regular review of each of the direct assets in the Investment Portfolio. Each asset will be formally reviewed against an impairment testing check list and reported to the Responsible Entity.

In addition to this formal process, Laxey on behalf of the Responsible Entity will monitor financial and operational

DIRECTORS' REPORT (continued)

performance more regularly to the extent that borrowers are required to provide more regular reporting. The reporting and covenant compliance requirements are managed via models which have been designed to track these ongoing performance requirements. This will be reported to the Responsible Entity on a regular basis.

Risk concentrations of credit risk exposure

Concentration of credit risk is managed by counterparty, by geographical region and by industry sector.

(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 portfolio is in orderly liquidation and so this risk is being actively managed through that process.

(c) Market price risk

Market price risk is the risk that the value of the consolidated entity'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 was managed by ensuring that all activities were transacted in accordance with investment and leverage guidelines. However, as a result of the renegotiation of the Swap and Leverage Facility, and the intention of the parties to wind down the Swap, no investment guidelines are specified, but AIT is subject to the restrictions set out in the 3 bullet points under the heading "Leverage Facility" below. Market price risk analysis is conducted regularly on a total portfolio basis which includes the effect of derivatives.

(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 net of debt denominated in a foreign currency, and transactional exposure arising from purchases or sales of securities.

As the intention of the parties is now to undertake an orderly wind down of AIT and close out the Swap, it has been agreed that Macquarie will close out all existing FX hedge transactions as soon as it determines to be practicable and that such transactions shall be cash settled by Macquarie at market rates determined by Macquarie acting commercially, reasonably and in good faith.

(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 amount borrowed under the Leverage Facility. The interest rate is determined as the US dollar base rate for the relevant interest period plus a margin of 1.20% per annum.

The Manager is responsible, for managing direct interest rate risk with respect to the Leverage Facility and investment in fixed interest securities, and reporting any issues to the Responsible Entity.

(f) 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 equity through the Swap where the underlying funds invest in listed securities.

All financial assets and financial liabilities included in the balance sheet are carried at fair value.

The carrying values of all the consolidated entity's financial assets and financial liabilities reflect the fair values of the financial assets and liabilities at the balance sheet date, as these assets and liabilities are short term in nature.

Investment & leverage guidelines

Leverage Facility

On 29 January 2009 the Former Responsible Entity renegotiated the terms of the Swap and Leverage Facility with Macquarie Bank Limited (the "Leverage Facility Provider"), for the purpose facilitating the close out the Swap and the orderly

DIRECTORS' REPORT (continued)

realisation of the assets comprising the Underlying Investment Portfolio.

Prior to the renegotiation, the Leverage Facility was subject to certain investment guidelines governing the composition of the Underlying Investment Portfolio. The Former Responsible Entity was only permitted to alter the Underlying Investment Portfolio outside these guidelines with the consent of the Leverage Facility Provider.

However, as a result of the renegotiation of the Swap and Leverage Facility, and the intention of the parties to wind down the Swap, no investment guidelines are specified but 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.

The terms of the renegotiated Swap and Leverage Facility generally only permit AIT to wind down the Swap and reduce the amount of leverage provided by the Leverage Facility Provider under the Leverage Facility by repaying any amounts borrowed from the Leverage Facility Provider as a cash payment or from the proceeds of realising the Underlying Investment Portfolio. AIT can also request the removal of an investment from the Underlying Investment Portfolio, provided the Leverage Facility Provider agrees to this request.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Permanent Investment Management Limited advises that Laxey will manage AIT according to AIT's investment strategy and will undertake an orderly wind down of AIT with a program for the realisation of assets with a view to optimising the return on investments to unitholders.

DIRECTORS AND OFFICERS

The Directors and officers of the Former Responsible Entity during the year and until the date of this report were:

Name	Title
Trevor Gerber	Non-Executive Chairman (Resigned 6 February 2009)
Marea Laszok	Independent Director (Resigned 6 February 2009)
Warick Leeming	Independent Director (Resigned 19 December 2008)
Peter Williams	Independent Director (Resigned 19 December 2008)
Jeremy Reid	Executive Director
Gary Kalmin	Company Secretary and Head of Corporate Development (appointed 1 July 2008) appointed Executive Director 5 February 2009)
Aaron Budai	Chief Financial Officer (appointed 1 July 2008)(appointed Executive Director 5 February 2009)
Azra Popo	Company Secretary and General Counsel (resigned 30 November 2008)
Brian O'Sullivan	Company Secretary and Chief Financial Officer (resigned 30 June 2008)

The Directors of the new Responsible Entity Permanent Investment Management Limited from 5 February 2009 are:

Name	Title
John Atkin	Executive Director (Appointed 27 January 2009)
Vicki Allen	Executive Director
Michael Britton	Executive Director
David Grbin	Executive Director (Appointed 22 July 2008)
Eugene Quass	Executive Director (Resigned 13 February 2009)

INFORMATION ON OFFICERS OF THE FORMER RESPONSIBLE ENTITY DURING THE YEAR WASAS FOLLOWS:

Trevor Gerber, Chairman (Resigned 6 February 2009)

Trevor previously worked with Westfield Holdings Limited for 14 years until 1999 as Group Treasurer and subsequently as Director of Funds Management responsible for the listed property trusts, Westfield Trust and Westfield America Trust. Trevor is currently a director of Everest Financial Group Limited, Macquarie Airports Group and Valad Property Group. He is also a former director of Macquarie Prologis, Macquarie CountryWide Trust and Hamilton Island Limited. Trevor qualified as a Chartered Accountant in 1980 and is a member of The Institute of Chartered Accountants in Australia.

Marea Laszok, Independent Director (Resigned 6 February 2009)

Marea is Executive Chairman of Advanced Management Planning Limited. She was formerly the Chief Executive Officer

DIRECTORS' REPORT (continued)

of Midland Bank Australia and Managing Director of Hong Kong Bank of Australia Limited where she spent 11 years as a senior executive. Marea has previously served on other company Boards including Australian Treasury Services Limited and Pacific Knowledge Networks Limited.

Warick Leeming, Independent Director (Resigned 19 December 2008)

Warick is a Director of A E Smith and Son Pty Ltd and was appointed by the Administrators to the Board of Pasminco Limited and subsidiary companies. Warick has served on numerous Boards and Victorian Government Committees, was a senior Partner at Duesburys, Ernst & Whinney (now Ernst & Young) Chartered Accountants for 14 years and was a Director of Mooreland Hire Pty Ltd, an Executive Director of Wardley Australia Limited and the Hong Kong Bank of Australia Limited. Warick is a Fellow of the Institute of Chartered Accountants specialising in corporate finance and advisory work.

Peter Williams, Independent Director (Resigned 19 December 2008)

Peter Williams is a Senior Advisor at Prescott Securities Limited, a stockbroking and wealth management company and a subsidiary of WHK Horwath. In 1984, Peter was a founding partner of the Sydney chartered accounting firm Williams Hatchman & Kean now known as WHK Horwath. He is a Fellow of the Institute of Chartered Accountants, holds a Masters of Commerce Degree from UNSW and is a member of the Financial Planning Association and is a Certified Financial Planner. Peter has 35 years experience in the financial services industry in the accounting, taxation and financial planning professions.

Jeremy Reid, Executive Director

Jeremy is the Chief Executive Officer of Everest Financial Group Limited and Executive Director of Everest Capital Investment Management Limited. Under his strategic guidance and management, the Everest Financial Group has launched a range of absolute return funds and assets under management have grown from approximately \$5 million in February 2000 to its current level. Jeremy has been an active investor and participant in global financial markets and managed funds.

Gary Kalmin, Company Secretary and Head of Corporate Development (appointed 1 July 2008)

Gary joined Everest Financial Group in January 2008 and is responsible for corporate development and strategic initiatives to support the growth of the business. Gary joined from Challenger Financial Services Group where he spent more than five years in senior positions in corporate development and more recently as a Director and Head of Origination within the infrastructure business. In this role, Gary led many transactions and initiatives spanning across Europe, North America and Australia as well as the launch of the specialist funds business including the listed Challenger Infrastructure Fund.

Gary has 12 years industry experience and has also previously held corporate finance roles at PricewaterhouseCoopers in Sydney and Barclays Bank in London. He is a member of the Institute of Chartered Accountants of Australia, a Fellow of the Financial Services Institute of Australia and has a MBA from the Australian Graduate School of Management.

Aaron Budai, Chief Financial Officer (appointed 1 July 2008)

Aaron has 12 years experience working in Finance and Accounting functions of Funds Management Companies and Investment Banks. Prior to joining Everest he was the Executive Manager - Finance of an Investment/Superannuation Division of CBA/Colonial with \$25bn AUM representing over 250 products and hundreds of thousands of investors. Aaron spent 7 years working in London for Citibank and UBS Warburg. Over the past 12 years he has developed a broad and thorough understanding of financial and management reporting for the Financial Services industry. Aaron holds a Bachelor in Economics from Macquarie University and is a Fellow of the ACCA (UK).

Azra Popo, Company Secretary and General Counsel (resigned 30 November 2008)

Azra joined Everest in April 2005 as General Counsel and Company Secretary. Prior to joining EFG, Azra worked for ten years in the corporate finance groups of leading international law firms in London and Sydney. In private practice Azra advised on mergers and acquisition, disposals, capital markets transactions as well as on general corporate and commercial law issues, with an industry focus on financial services. Azra is admitted as a solicitor in New South Wales and England and Wales. She is also an Associate of Finsia.

Brian O'Sullivan, Company Secretary and Chief Financial Officer (resigned 30 June 2008)

Brian has 18 years experience in operations, funds management, investment banking and professional services. Prior to joining EFG as its Chief Financial Officer, he worked at Zurich Capital Markets Asia Limited as Senior Vice President and Product Manager in the Asset Management division. Brian's previous roles include eight years at BT Financial Group in various areas of its funds management business and three years in the audit division of PricewaterhouseCoopers.

DIRECTORS' REPORT (continued)

INTERESTS OF DIRECTORS OF THE FORMER RESPONSIBLE ENTITY

As at 31 December 2008, the interests of the Directors in the AIT units were:

	Units
Trevor Gerber	150,000
Marea Laszok	20,000
Jeremy Reid	3,046,000

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Constitution of the Former Responsible Entity required it to indemnify all current and former officers of the Former Responsible Entity against a liability incurred:

- (a) in acting as an officer of the Former Responsible Entity;
- (b) for costs and expenses in defending an action for a liability incurred in acting as officer of the Former Responsible Entity or as an officer of another company acting as such at the request of the Former Responsible Entity.

The indemnification is provided other than in certain circumstances such as a liability owed to the Former Responsible Entity or their related bodies corporate and conduct involving a lack of good faith.

During the financial year, insurance contracts were entered into to insure the Directors and officers of the Former Responsible Entity against any liability incurred in their capacity as a Director or officer. The terms of the insurance contract restrict disclosure of the nature of the liability and the amount of the premium. AIT has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of AIT or its related body corporate against a liability incurred.

Former Responsible Entity/former Manager transactions

All transactions with related entities were made on normal commercial terms and conditions.

Everest Capital Investment Management Limited (ECIML) was appointed the Responsible Entity of AIT on 24 June 2005. Responsible Entity fees were calculated at 1.25% per annum of AIT's assets.

As at 31 December 2008 the Former Responsible Entity had no interest in AIT [2007:nil].

Fees paid/payable to the Former Responsible Entity during the respective period were as follows:

	2008	Consolidated	2008	Parent
	\$000	2007	\$000	2007
		\$000		\$000
Responsible entity fees	15,542	14,156	15,542	14,156

In addition, performance fees paid by AIT to the former Manager during the financial year were nil [2007:nil].

New Responsible Entity/New Manager Fees

As disclosed at the unitholders meeting held 30 January 2009, the new Responsible Entity Permanent Investment Management Limited will charge \$1million for year 1 (excluding GST) payable monthly in arrears and thereafter 0.1% of gross assets per annum subject to a minimum of \$80k per annum.

Laxey Partners (UK) Ltd the new manager will charge 0.75% per annum (excluding GST) of gross assets and 1% of distributions paid to investors (excluding GST). The Responsible Entity Fees and Managers Fees in total are not to exceed 1.25% per annum of gross assets.

OPTIONS

As at the date of this Report the Former Responsible Entity advises that no options have been issued or granted over AIT units [2007:nil].

DIRECTORS' REPORT (continued)**MEETINGS OF FORMER RESPONSIBLE ENTITY****DIRECTOR MEETINGS**

	No. eligible to attend	Attended
Trevor Gerber	14	14
Peter Williams	12	12
Jeremy Reid	14	13
Marea Laszok	14	14
Warick Leeming	13	10

AUDIT & RISK MANAGEMENT COMMITTEE MEETINGS

	No. eligible to attend	Attended
Warick Leeming, Chairman	2	2
Trevor Gerber	2	2
Marea Laszok	2	2

NOMINATION & GOVERNANCE COMMITTEE MEETINGS

	No. eligible to attend	Attended
Trevor Gerber, Chairman	1	1
Warick Leeming	1	1
Jeremy Reid	1	1

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR**AIT Exchange offer**

On 29 January 2009 implementation of the AIT Exchange offer took place. Under the offer, AIT unitholders who preferred to maintain their exposure to the continuing AIT investment portfolio and investment strategy elected to exchange their AIT Units for units in a new unlisted trust, the Everest Alternative Investment Trust (EAIT).

The total number of units exchanged under the Exchange Offer was 48,499,951 units, representing approximately 27% of AIT's total units on issue.

Change of Responsible Entity of AIT

ECIML, ceased to be the Responsible Entity for AIT on 5 February 2009. The change in Responsible Entity occurred as a result of a resolution passed at a meeting of unitholders held on 30 January 2009 and took effect on 5 February 2009. The new Responsible Entity of AIT is Permanent Investment Management Limited.

Appointment of new Investment Manager

Laxey Partners (UK) Ltd was appointed as the new investment manager on 23 February 2009 by Permanent Investment Management Limited replacing Everest Capital Limited.

Laxey will manage AIT according to its Investment Strategy; to undertake an orderly wind down of AIT, with a program for the realization of assets to optimize the return on investments to unitholders.

Laxey welcomes the appointment and is committed to realizing the assets to optimize the return on investments to all unitholders.

Laxey is part of Laxey Partners Ltd. Based on the Isle of Man in the British Isles and founded in 1998 as a globally active value management company, Laxey manages a range of assets and funds for institutional investors. Since its creation, Laxey has led over fifty successful closed-end fund investments, including orderly wind downs such as the mandate for management of AIT.

Laxey Partners Ltd is a holder of 23.52% of units of AIT.

DIRECTORS' REPORT (continued)

Amended Swap Arrangements

On 29 January 2009 the Swap arrangements with the Leverage Facility Provider (Macquarie Bank Limited) have been revised. The terms were set out in the notice of meeting circulated to unitholders on 23 December 2008 for the 30 January 2009 unitholders meeting and full details are disclosed in Note 19 to the Accounts.

Reduction of Leverage

During the month of February 2009 AIT repaid US \$120m of the debt owing to the Leverage Facility Provider.

Reclassification of Non Current Liability to Current liability

Going forward because of the amendments to the Swap, a portion of debt owing to the Leverage Facility Provider will be reclassified as a current liability on the Balance Sheet of AIT where it can be determined that redemption proceeds from underlying assets would be received by AIT and payable to the Leverage Facility Provider within a 12 month period.

Foreign Currency

All Foreign Currency Swaps have now been closed and the loss of US \$25.7m has been added to the debt owing to the Leverage Facility Provider under the revised Swap arrangements with Macquarie Bank Limited.

No other matters or circumstances have arisen since 31 December 2008 that have significantly affected, or may significantly affect:

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

ENVIRONMENTAL REGULATION

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

NON-AUDIT SERVICES

Details of non audit services performed by the auditor may be found in note 18 of the Report.

The Directors of the Former Responsible Entity have considered the position and, in accordance with advice received from their Audit & Risk Management Committee, were satisfied that the provision of non audit services was compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors were satisfied that the nature and scope of the non audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reason:

- all non audit services had been reviewed by the former Audit & Risk Management Committee to ensure that they did not impact the impartiality and objectivity of the auditor; and
- none of the services undermined the general principles relating to auditor independence including reviewing or auditing the auditors own work, acting in a management or decision making capacity for AIT, or acting as advocate for AIT, or jointly sharing risks and rewards.

ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

The consolidated entity is an entity of the kind referred to in Class Order 98/0100 (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.

DIRECTORS' REPORT (continued)

AUDITORS' 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 17.

Signed in accordance with a resolution of the directors of Permanent Investment Management Limited.

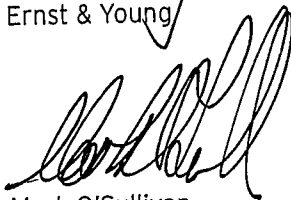
On behalf of the Board



Vicki Allen
Director
Sydney, 27 March 2009

Auditor's Independence Declaration to the Directors of Permanent Investment Management Limited

In relation to our audit of the financial report of Alternative Investment Trust for the financial year ended 31 December 2008, 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
Mark O'Sullivan
Partner
27 March 2009

CORPORATE GOVERNANCE STATEMENT (continued)

Alternative Investment Trust (Formerly Everest Babcock & Brown Alternative Investment Trust)
Directors' report
For the year ended 31 December 2008

CORPORATE GOVERNANCE STATEMENT

The Directors of the Former Responsible Entity (former Board) were responsible for AIT's corporate governance for the reporting period.

The Board guided and monitored the business and affairs of AIT on behalf of the unitholders.

The format of the Corporate Governance Statement is consistent with the introduction of the Australian Stock Exchange Corporate Governance Council's (Council's) Principles of Good Corporate Governance and Best Practice Recommendations (Recommendations). In accordance with the Council's Recommendations, the Corporate Governance Statement must contain certain specific information and must disclose the extent to which the company has followed the guidelines during the reporting period. Where a Recommendation has not been followed, that fact must be disclosed, together with the reasons for any departure. ECIML's Corporate Governance Statement was structured with reference to the Council's Recommendations, which was as follows:

Principle 1: Lay Solid Foundations for Management and Oversight

Recognise and publish the respective roles and responsibilities of the Board and management.

The role of the former Board was to set goals and policies for the operation of AIT, to oversee its former external investment manager, Everest Capital Limited (former Manager), to regularly review performance and to generally monitor AIT's affairs in the best interest of unitholders. This information was set out on the Everest Financial Group website at www.everest.com.au. The former Board was accountable to unitholders for these responsibilities.

The former Board believed that AIT was in compliance with Principle 1.

Principle 2: Structure the Board to Add Value

Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

The details of each of the Former Responsible Entity Director's skill, experience and expertise are set out in the Directors' Report. As at year end three Directors on the former Board were considered to be independent Directors - Marea Laszok, Warick Leeming (resigned 19 December 2008) and Peter Williams. The Chairman of the former Board, Mr Trevor Gerber was not considered an independent director as he was a non-executive director of the Former Responsible Entity's ultimate parent company. The former Board had therefore a majority of independent directors.

ECIML had established an External Compliance Committee in accordance with section 601JA (1) of the Corporations Act. This Committee monitored the extent to which the Former Responsible Entity and AIT complied with the compliance plan; evaluated the adequacy of the compliance plan and recommended changes when appropriate; and reported breaches of the compliance plan and/or the Corporations Act by AIT to the former Board and to ASIC if necessary.

The term in office held by each Director in office at 31 December 2008 was as follows:

Name	Term in office
Trevor Gerber	45 months
Marea Laszok	26 months
Warick Leeming	26 months
Peter Williams	21 months
Jeremy Reid	46 months

For additional details regarding former Board members experience please refer to the Director's report on pages 11-12.

The former Board had a Nomination & Governance Committee and a summary of its Charter was available on the Everest Financial Group website. The Nomination & Governance Committee, amongst other duties, recommended suitable Directors for approval.

The Committee advised the former Board on appropriate corporate governance standards and policies. In making recommendations to the former Board regarding appointment of directors, the Committee assessed the appropriate mix of skills, experience and expertise required on the former Board and the extent to which the required skill and experience are represented at the former Board. The Committee could obtain information from, and consult with, external advisors, where it considered appropriate. The Committee comprised the following members Trevor Gerber

CORPORATE GOVERNANCE STATEMENT (continued)

(Chairman), Warick Leeming and Jeremy Reid.

To assist Directors of the Former Responsible Entity to fully meet their responsibilities to bring an independent viewpoint to matters coming before them, the former Board had agreed a procedure in appropriate situations for Directors to take independent professional advice at the expense of AIT after advising the Chairman of their intention to do so.

The former Board believed that AIT was in compliance with Principle 2.

Principle 3: Promote Ethical and Responsible Decision Making

Actively promote ethical and responsible decision making.

ECIML was committed to maintaining the highest standards of integrity and sought to ensure all of AIT's activities were undertaken with efficiency, honesty and fairness. ECIML also maintained a high level of transparency regarding AIT's actions consistent with the need to maintain the confidentiality of commercial in confidence material and, where appropriate, to protect the unitholders' interests.

ECIML had adopted a Continuous Disclosure Policy, a Unit Trading Policy and a Code of Conduct for AIT. The Unit Trading Policy covered dealing in AIT units by its officers and employees. The Code of Conduct included the code of conduct for Directors and all employees, contractors and advisers of ECIML. The documents were also summarised on the Everest Financial Group website.

The former Board believed that AIT was in compliance with Principle 3.

Principle 4: Safeguard Integrity in Financial Reporting

Have a structure to independently verify and safeguard the integrity of AIT's financial reporting.

ECIML established the Audit & Risk Management Committee to oversee the integrity of the financial reporting process for AIT which reported to the former Board. Warick Leeming (Chairman), Marea Laszok and Trevor Gerber were members of the Committee. The Committee was structured so that it consisted of a majority of independent directors. The Chairman was not the Chairman of ECIML. The Committee had a formal Charter which was summarised on the Everest Financial Group website. The Charter set out the role and responsibilities, composition and structure of the Committee. Qualifications of the Committee members, number of meetings and attendance are disclosed in the Directors' Report. The Committee was required to confirm the quality and reliability of the financial information prepared, working on behalf of the former Board with the external auditor. The Committee reviewed non audit services provided by the external auditor to confirm that they were consistent with maintaining external audit independence. The Committee provided advice to the former Board and reported on the status of the business risks of AIT via its risk management processes, aimed at ensuring risks were identified, assessed and properly managed.

The former Board obtained from the former Manager's Chief Executive Officer and the Chief Financial Officer written affirmation that, to the best of their knowledge and belief, the financial reports presented a true and fair view, in all material respects, of AIT's financial condition and operational results and were in accordance with relevant accounting standards.

ECIML established a process to ensure the independence and competence of AIT's external auditors including the former Audit & Risk Management Committee reviewing any non audit work to ensure that it did not conflict with audit independence. The Charter of the former Audit & Risk Management Committee sets out procedures for appointment of auditors and establishing their independence.

The former Board believed that AIT was in compliance with Principle 4.

Principle 5: Timely and Balanced Disclosure

Promote timely and balanced disclosure of all material matters concerning AIT.

As a listed entity, AIT has an obligation under the ASX Listing Rules to maintain an informed market with respect to its units. Accordingly, ECIML ensured that the market was advised of all information required to be disclosed under the Rules which it believes would have material effect on the price or value of AIT units.

ECIML had a written policy and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability for that compliance and a summary of this policy is available on its website.

The former Board believed that AIT was in compliance with Principle 5.

Principle 6: Respect the Rights of Unitholders

Respect the rights of unitholders and facilitate the effective exercise of those rights.

The former Board's primary responsibility to the unitholders was to do its utmost to meet AIT's objectives and so

CORPORATE GOVERNANCE STATEMENT (continued)

increase AIT's value for all unitholders. ECIML had designed a communications strategy in order to promote effective communication with AIT unitholders. An internet website was maintained on which all ASX announcements, Half Year Reports, Annual Reports, details of corporate governance practices and related material were posted and made available for unitholders and investors.

The former Board believed that AIT was in compliance with Principle 6.

Principle 7: Recognise and Manage Risk

ECIML established and maintained a sound system of risk oversight, management and internal control for AIT. Since its inception, ECIML has recognised and addressed material risks to the AIT business, particularly investment risk.

The former Manager's management established a system for identifying, assessing, monitoring and managing material risk throughout the organisation. This system included AIT's internal compliance and control system. More detail on general internal compliance and control system's is set out on page 5 under the Risk Management section of the Directors' Report.

The Investment Committees of the former Manager were primarily responsible for dealing with issues arising from investment risk. By its nature, AIT will always carry investment risk because it invests its capital in securities which are not risk free. The former Manager's Investment Committees were the principal bodies for investment decisions and were responsible for dealing with issues arising from any investment risk. All investments were approved by the relevant Investment Committee which included the former Manager's most senior and experienced executives. A submission was made to the Investment Committee only after the investment team had conducted a rigorous analysis and due diligence on both the underlying investment on the construction of the portfolio, or on the potential investment and on any other investment decisions. The former Manager's Investment Committees' charters detailed protocols on how they operated and how decisions were made. The former Manager's Risk Committee was responsible for other risk management decisions.

AIT's Former Responsible Entity directors and the former Manager were primarily responsible for recognising and managing all other risk issues for AIT, such as operational risk, disaster recovery, credit and counterparty risk.

The former Board had obtained from the former Manager's Chief Executive Officer and the Chief Financial Officer written affirmation that, to the best of their knowledge and belief, the integrity of financial statements was founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the former Board and that AIT's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Further, the Former Responsible Entity had appointed an External Compliance Committee which consisted of two external members and one internal member. All three members of the Committee are investment professionals with extensive investment and compliance experience. The former External Compliance Committee monitored the extent to which the Former Responsible Entity and AIT complied with the compliance plan, evaluated the adequacy of the compliance plan, the Corporations Act or the AIT's constitution to the former Board and to ASIC if required.

The former Board believed that AIT was in compliance with Principle 7.

Principle 8: Encourage Enhanced Performance

Fairly review and actively encourage enhanced board and management effectiveness.

The former Board established a Nomination & Governance Committee to assist in its responsibilities to review the performance of the former Board and to deal with corporate governance compliance. The former Committee reviewed each former Director's performance against measurable and qualitative indicators.

The former Board believed that AIT was in compliance with Principle 8.

Principle 9: Remunerate fairly and responsibly

Ensure that the level and composition of remuneration of management is sufficient and reasonable and that its relationship to corporate and individual performance is defined.

ECIML only paid the Chairman's and Former Responsible Entity Directors' remuneration (see pages 49-50 of the Financial Report) and employed no management directly as it was managed externally by the former Manager. Since AIT did not have employees it has not formed a remuneration committee.

The former Board believed that AIT was in compliance with Principle 9.

Principle 10: Recognise the Legitimate Interests of Stakeholders

Recognise legal and other obligations to all legitimate stakeholders.

Because of AIT's operation as a listed registered managed investment scheme, its key stakeholders are its unitholders and employees of the former Manager. As mentioned earlier, ECIML had adopted a Code of Conduct

CORPORATE GOVERNANCE STATEMENT (continued)

which is intended to guide the activities of Directors of the Former Responsible Entity and the former Manager's employees and was designed to ensure that the legal requirements and other obligations to AIT stakeholders were complied with at all times. A summary of the Code was available on the Everest Financial Group website.

ECIML is committed to the highest standards of ethical behaviour and corporate governance.

The former Board believed that AIT was in compliance with Principle 10.

Permanent Investment Management Limited new responsible entity's Corporate governance statement

The Corporate Governance Statement in this report is that of the Former Responsible Entity. PIML is currently tailoring its Corporate Governance Principles for AIT with Laxey and will release them to the AIT website on completion. Further emphasis will be placed on enhancing internal controls and compliance plan requirements for the scheme.

Alternative Investment trust (Formerly Everest Babcock & Brown Alternative Investment Trust)
Income Statement
For the year ended 31 December 2008

INCOME STATEMENT

		Consolidated Year ended		Parent Year ended	
		31 December 2008 \$'000	31 December 2007 \$'000	31 December 2008 \$'000	31 December 2007 \$'000
Notes					
Investment income					
Net gains/(losses) on financial instruments designated as fair value through profit or loss	4	(294,703)	53,416	(304,050)	55,812
Interest income		16,731	11,968	844	1,740
Foreign exchange gain/(loss) on loans and receivables		4,515	(5,421)	-	-
Other investment income/(expense)	3	(7,843)	(1,627)	2	-
Dividend/Distribution income		3,930	488	24,626	-
Total investment income/(loss)		(277,370)	58,824	(278,578)	57,552
Expenses					
Former Responsible entity fees	16	15,542	14,156	15,542	14,156
Other operating expenses	3	5,861	892	5,834	881
Total operating expenses		21,403	15,048	21,376	15,037
Operating profit/(loss)		(298,773)	43,776	(299,954)	42,515
Financing costs					
Interest expense		(1,184)	(1,160)	-	-
Distributions to unitholders		(11,699)	(70,040)	(11,699)	(70,040)
Changes in net assets attributable to unitholders		(311,656)	(27,424)	(311,653)	(27,525)
Profit/(loss) attributable to unitholders		(299,957)	42,616	(299,954)	42,515
Basic and diluted earnings per unit in cents					
		Consolidated Year ended			
		31 December 2008 Cents	31 December 2007 Cents		
Basic and diluted earnings per unit in cents	5	(166.7)	30.40		

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

BALANCE SHEET

		Consolidated As at		Parent As at	
	Notes	31 December 2008 \$'000	31 December 2007 \$'000	31 December 2008 \$'000	31 December 2007 \$'000
Current assets					
Cash and cash equivalents	9	81,977	10,831	55,076	5,282
Receivables	11	3,118	2,442	396	435
Financial assets designated as fair value through profit or loss	7	2,446	13,079	106,733	146,456
Loans and receivables	6	46,234	99,118	-	2,000
Total current assets		133,775	125,470	162,205	154,173
Non-current assets					
Financial assets designated as fair value through profit or loss	7	865,470	1,114,256	831,339	1,114,256
Loans and receivables	6	3,558	69,204	-	-
Total non-current assets		869,028	1,183,460	831,339	1,114,256
Total assets		1,002,803	1,308,930	993,544	1,268,429
Current liabilities					
Payables	12	7,059	6,045	5,883	5,751
Financial liabilities designated as fair value through profit or loss	10	8,083	-	-	-
Total current liabilities		15,142	6,045	5,883	5,751
Non-current liabilities					
Financial liabilities designated as fair value through profit or loss	10	565,542	559,916	565,542	519,712
Total non-current liabilities		565,542	559,916	565,542	519,712
Total liabilities (excluding net assets attributable to unitholders)		580,684	565,961	571,425	525,463
Net assets attributable to unitholders	13	422,119	742,969	422,119	742,966
Represented by:					
Units on issue		734,683	743,877	734,683	743,877
Undistributed income		(312,564)	(908)	(312,564)	(911)
		422,119	742,969	422,119	742,966

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	Consolidated		
	Units on issue	Undistributed income	Total
	\$'000	\$'000	\$'000
At 1 January 2008	743,877	(908)	742,969
Distributions paid/payable	-	(11,699)	(11,699)
Units cancelled through buyback	(9,194)	-	(9,194)
Profit/(loss) for the year attributable to unitholders	-	(299,957)	(299,957)
As at 31 December 2008	<u>734,683</u>	<u>(312,564)</u>	<u>422,119</u>

	Parent		
	Units on issue	Undistributed income	Total
	\$'000	\$'000	\$'000
At 1 January 2008	743,877	(911)	742,966
Distributions paid/payable	-	(11,699)	(11,699)
Units cancelled through buyback	(9,194)	-	(9,194)
Profit/(loss) for the year attributable to unitholders	-	(299,954)	(299,954)
As at 31 December 2008	<u>734,683</u>	<u>(312,564)</u>	<u>422,119</u>

	Consolidated		
	Units on issue	Undistributed income	Total
	\$'000	\$'000	\$'000
At 1 January 2007	255,176	26,516	281,692
Issue of units	12,501	-	12,501
Proceeds from capital raising	503,229	-	503,229
Distribution paid/payable	-	(70,040)	(70,040)
Units cancelled through buyback	(7,909)	-	(7,909)
Profit/(loss) for the year attributable to unitholders	-	42,616	42,616
Transaction costs	(19,120)	-	(19,120)
As at 31 December 2007	<u>743,877</u>	<u>(908)</u>	<u>742,969</u>

	Parent		
	Units on issue	Undistributed income	Total
	\$'000	\$'000	\$'000
At 1 January 2007	255,176	26,614	281,790
Issue of units	12,501	-	12,501
Proceeds from capital raising	503,229	-	503,229
Distributions paid/payable	-	(70,040)	(70,040)
Units cancelled through buyback	(7,909)	-	(7,909)
Profit/(loss) for the year attributable to unitholders	-	42,515	42,515
Transaction costs	(19,120)	-	(19,120)
As at 31 December 2007	<u>743,877</u>	<u>(911)</u>	<u>742,966</u>

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

Alternative Investment Trust (Formerly Everest Babcock & Brown Alternative Investment Trust)
Cash Flow Statement
For the year ended 31 December 2008

CASH FLOW STATEMENT

		Consolidated Year ended		Parent Year ended	
	Notes	31 December 2008 \$'000	31 December 2007 \$'000	31 December 2008 \$'000	31 December 2007 \$'000
Cash flows from operating activities					
Dividends received		4,057	225	24,627	-
Interest received		15,732	10,258	687	1,774
Other income received		363	174	2	-
Payment of Former Responsible Entity and other fees		(21,526)	(12,301)	(21,334)	(12,291)
Interest paid		(1,775)	(577)	-	(6)
GST (paid)/received		196	(248)	196	(248)
Net cash inflow/(outflow) from operating activities	8(a)	<u>(2,953)</u>	<u>(2,469)</u>	<u>4,178</u>	<u>(10,771)</u>
Cash flows from investing activities					
Proceeds from sale of investments		248,323	143,145	129,925	99,853
Purchase of investments		(116,088)	(612,223)	(63,098)	(524,939)
Net cash inflow/(outflow) from investing activities		<u>132,235</u>	<u>(469,078)</u>	<u>66,827</u>	<u>(425,086)</u>
Cash flows from financing activities					
Net proceeds from Capital Raising		-	484,109	-	484,109
Units cancelled through buyback		(9,512)	(7,592)	(9,512)	(7,592)
Distributions paid		(11,699)	(70,000)	(11,699)	(70,000)
Proceeds from dividend/distribution reinvestment plan		-	12,501	-	12,501
Proceeds from borrowings		13,866	83,373	-	-
Repayments of borrowings		(50,947)	(42,193)	-	-
Net cash inflow/(outflow) from financing activities		<u>(58,292)</u>	<u>460,198</u>	<u>(21,211)</u>	<u>419,018</u>
Net increase/(decrease) in cash and cash equivalents		70,990	(11,349)	49,794	(16,839)
Cash and cash equivalents at beginning of the year		10,831	22,187	5,282	22,121
Effects of foreign currency exchange rate changes on cash and cash equivalents		<u>156</u>	<u>(7)</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents at the end of the year	8(b),9	<u>81,977</u>	<u>10,831</u>	<u>55,076</u>	<u>5,282</u>

The above cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

The consolidated entity consists of Alternative Investment Trust (Formerly Everest Babcock & Brown Alternative Investment Trust) (the Trust or AIT), an Australian registered managed investment scheme and its subsidiaries (the Group). AIT is listed on the ASX. The Trust was constituted on 7th April 2005.

As of 5 February 2009 the Responsible Entity of AIT is Permanent Investment Management Limited

The registered office of Permanent Investment Management Limited is Level 4, 35 Clarence Street, Sydney NSW 2000. Prior to this date the Responsible Entity was Everest Capital Investment Management Limited (ECIML or Former Responsible Entity).

Laxey Partners (UK) Ltd (Laxey) was appointed as the new investment manager effective on and from 24 February 2009 by Permanent Investment Management Limited replacing Everest Capital Limited.

The financial statements were authorised for issue by the Directors on 27 March 2009.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

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 report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

Compliance with International Financial Reporting Standards (IFRS)

The financial report of the consolidated entity, 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

The consolidated financial statements incorporate the assets and liabilities of all the entities controlled by AIT at 31 December 2008, and the results of those controlled entities for the year then ended.

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.

(c) Foreign currency translation

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

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 rate of exchange ruling at the balance sheet date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the year or in a previous financial report, is 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.

1 Summary of significant accounting policies (continued)

(d) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Revenue

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

Dividends are 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, unsecured and are usually paid within 30 days of recognition except for the Former Responsible Entity fees (management fees) which are paid quarterly.

(g) Receivables

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

(h) Prepayments

Prepayments include amounts paid for insurance for AIT, which is amortised over the period of insurance coverage.

(i) Net assets attributable to unitholders

Contributions from unitholders and the net profit attributable to the unitholders of AIT are recognised in the Balance Sheet as net assets attributable to unitholders.

Costs associated with establishing AIT and the subsequent capital raising have been offset against the amounts payable to unitholders of AIT.

Amounts payable to unitholders are classified as debt as AIT has a finite life. AIT has a life of 80 years, subject to earlier termination as outlined in AIT's constitution.

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.

(j) Loans and receivables

Subordinated debt assets are classified as Loans and receivables and are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable to determine whether there is objective evidence of impairment.

1 Summary of significant accounting policies (continued)

If any such indication of impairment exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the assets present value.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write down, the write down is reversed through the income statement.

(k) Investment in derivative financial instruments

Total return equity swap

The Former Responsible Entity, on behalf of AIT, entered into a total return equity swap, referred to in this Report as the Leverage Facility. The Leverage Facility is denominated in US dollars and provides AIT with an exposure to a leveraged portfolio of leading international absolute return funds, foreign exchange contracts and cash (Underlying Investment Portfolio). Under the terms of the Leverage Facility, the provider of the Leverage Facility (Leverage Facility Provider) undertakes to pay AIT a return equal to what it would receive if it had invested in the specified Underlying Investment Portfolio taking into account the leverage provided under the Leverage Facility.

Due to the nature of the Leverage Facility the Cash Flow Statement includes only those cash amounts invested in the Leverage Facility or cash received from reductions in the Leverage Facility. As a result the impact of leverage is excluded from the cash flows from financing activities.

Reflecting the substance of the Leverage Facility and consistent with the requirements of Australian Accounting Standards, the Balance Sheet separately shows the Underlying Investment Portfolio as a Financial Asset and the Swap Payable as a Financial Liability.

Refer to note (l) and (m) for its measurement base.

Forward currency contracts

Forward currency contracts were primarily used by AIT to hedge against foreign currency exchange rate risks on its net financial assets. The Former Responsible Entity agreed to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts were valued at the prevailing market price at the reporting date. These instruments do not meet the criteria under accounting standards to be accounted for as hedges and are held for trading with gains or losses arising from changes in fair value taken directly to profit and loss.

(l) Financial assets

Swap receivable (Underlying Investment Portfolio)

The financial assets of AIT comprise a receivable under the Leverage Facility which reflects the fair value of the Underlying Investment Portfolio upon which AIT's return will be 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 or losses arising from changes in fair value are taken directly to profit and loss.

Listed equity

The fair value of listed securities that are actively traded in organised financial markets is determined by reference to stock exchange quoted markets bid prices at the close of business on the balance sheet date. Any resultant gain or loss is recognised in profit or loss.

Units in controlled entities

Investments in controlled entities are recorded at the unit price, which represents the fair value of the underlying investments. Movement in the fair value is recognised in the income statement.

(m) Financial liabilities

Swap payable (Leverage)

The Swap payable reflects the fair value of the leverage provided under the Leverage Facility. The economic cost of the Swap payable at the reporting date is recognised as a change in fair value. Gains or losses arising from changes

1 Summary of significant accounting policies (continued)

in fair value are taken directly to profit and loss.

Loan Facility

The loan facility reflects the fair value of the leverage provided. Gain or losses arising from changes in fair value are taken directly to profit or loss.

The investments stated in notes 1(k) - (m) (other than forward currency contracts which are held for trading) have been designated as at fair value through profit or loss as doing so results in more relevant information. These investments are part of the full group of financial assets which are managed and have their performance evaluated on a fair value basis in accordance with the documented risk management and investment strategies of AIT and the consolidated entity.

(n) Income tax

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

(o) Other taxes

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the Australian Taxation Office (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 cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified as operating cash flows.

(p) Distributions

In accordance with AIT's constitution, AIT fully distributes its distributable income to unitholders by cash or reinvestment.

(q) Earning per security

Basic and diluted earnings per unit is profit attributable to unitholders in the trust divided by the weighted average number of units on issue.

(r) Impairment of assets

Assets are reviewed for impairment 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 value in use. Current market prices are used to determine recoverable amount.

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2008 reporting period. The directors' assessment of the impact of these new standards (to the extent relevant to the consolidated entity) and interpretations is set out below:

- (i) AASB 8 and AASB 2007-3 Operating Segments and consequential amendments to other Australian Accounting Standards

AASB 2007-3 is applicable to annual reporting periods beginning on or after 1 January 2009. AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However the new standard is expected to have an impact on the Group's segment disclosures as segment information based on

1 Summary of significant accounting policies (continued)

management reports is likely to be more detailed than those currently reported under AASB 114.

(ii) AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]*. Amending standard issued as a consequence of amendment of AASB 123 *Borrowing Costs*.

AASB 2007-6 is applicable to annual reporting periods beginning on or after 1 January 2009. This is consistent with the Group's existing accounting policies for borrowing costs so will have no impact.

(iii) AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101. Amending standard issued as a consequence of amendment of AASB 101 Presentation of Financial Statements*.

AASB 2007-8 is applicable to annual reporting periods beginning on or after 1 January 2009. There will be a consequential impact on the financial statements such as incorporating new AASB 101 terminology into other applicable standards to the Group.

(iv) AASB 101 *Presentation of Financial Statements. Amended standard following the revised version of IAS 1 by the IASB*.

AASB 101 (Revised) is applicable to annual reporting periods beginning on or after 1 January 2009. The amended AASB 101 will change the presentation of the financial statements of the Group.

(v) AASB 123 (Revised) *Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123*.

Amends the current AASB 123 to only allow capitalisation of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

AASB 123 is applicable to annual reporting periods beginning on or after 1 January 2009. This is consistent with the Group's existing accounting policies for borrowing costs so will have no impact.

(vi) AASB 2008-2 *Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation*

(vii) AASB 2008-7 *Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

AASB 2008-7 is applicable for the reporting periods beginning on or after 1 January 2009. The main amendments are made to AASB 127 by deleting the cost method and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statement. The Group has not yet determined the extent of the impact of the amendments, if any.

(viii) AASB 2008-8 *Amendments to Australian Accounting Standards - Eligible Hedged Items*

AASB 2008-8 is applicable for the reporting periods beginning on or after 1 July 2009. The amendment to AASB 139 clarifies how the principles of underlying hedge accounting should be applied. The Group has not yet determined the extent of the impact of the amendments, if any.

(ix) *Amendments to International Financial Reporting Standards - Reclassification of Financial Assets (amendments to IAS 39 Financial Instruments: Recognition and measurement and IFRS 7 Financial Instruments: Disclosures*

Issued as a result of the deterioration of the world's financial markets during the third quarter of 2008. The Group has not yet determined the extent of the impact of the amendments, if any.

(x) AASB 3 (Revised) *Business Combinations*

AASB 3 (Revised) is applicable for the reporting periods beginning on or after 1 July 2009. The amendment introduces most significantly the choice for each business combination entered into to measure a non-controlling interest in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. The Group has not yet assessed the impact of early adoption.

(xi) AASB 127 (Revised) *Consolidated and Separate Financial Statements*

AASB 127 (Revised) is applicable for the reporting periods beginning on or after 1 July 2009. Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.

1 Summary of significant accounting policies (continued)

(t) Accounting assumptions

Variability of interest rates

The 84 and -16 basis points sensitivity is based on the volatility of change in the US cash interest rates to nil or up to 1% based on current rate of 0.16%.

Variability of equity price

The 20% sensitivity is based on the volatility of change in the NYSE composite index and Singapore Straits Times index, respectively, over the last 10 years.

2 SEGMENT INFORMATION

AIT operates in one business segment, being investment management. AIT also operates from one geographic location, being Australia, from where its investing activities are managed.

3 OTHER INCOME AND EXPENSE

	Consolidated Year ended		Parent Year ended	
	31 December 2008 \$'000	31 December 2007 \$'000	31 December 2008 \$'000	31 December 2007 \$'000
Other expenses				
Professional fees	2,828	81	2,828	72
Directors remuneration	300	181	300	181
Fund administration and custody expenses	628	168	628	168
Other general and administrative expenses	1,974	337	1,947	335
Auditors remuneration	131	125	131	125
Total other operating expenses	5,861	892	5,834	881
Other investment income/(expense)				
Provision for impairment ¹	(8,173)	(1,691)	-	-
Other investment income	330	64	2	-
Total income/(expenses)	(7,843)	(1,627)	2	-

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

	Consolidated Year ended		Parent Year ended	
	31 December 2008 \$'000	31 December 2007 \$'000	31 December 2008 \$'000	31 December 2007 \$'000
Financial instruments				
Fair value gains/(losses) on Leverage Facility	(280,077)	32,698	(280,077)	32,698
Net gains/(losses) on direct investments designated as fair value through profit or loss	(9,781)	(2,562)	-	-
Fair value gains/(losses) on derivatives (foreign currency contracts and interest rate swap)	(7,583)	22,071	-	18,204
Foreign exchange gains/(losses) on translation of loan facility	2,738	1,209	-	-
Fair value gain/(losses) on units in controlled entity	-	-	(23,973)	4,910
Total net gains/(losses) on financial instruments held at fair value through profit or loss	(294,703)	53,416	(304,050)	55,812

Forward currency contracts are used by AIT to hedge against foreign currency exchange risks.

¹ Refer to Note 14(a) for impairment schedule.

5 EARNINGS PER UNIT

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

	Consolidated As at	
	31 December 2008	31 December 2007
Profit/(loss) attributable to unitholders (\$'000)	(299,957)	42,616
Basic and diluted earnings per unit in cents	(166.7)	30.40
Weighted average number of units on issue ('000)	179,989	140,278

6 LOANS AND RECEIVABLES

Loans and receivables consist of subordinated debt assets.

	Consolidated As at		Parent As at	
	31 December 2008 \$'000	31 December 2007 \$'000	31 December 2008 \$'000	31 December 2007 \$'000
Current loans and receivables	53,266	99,118	-	2,000
Less provision for impairment	(7,032)	-	-	-
Total current loans and receivables	46,234	99,118	-	2,000
Non-current loans and receivables	6,807	70,895	-	-
Less provision for impairment	(3,249)	(1,691)	-	-
Total non-current loans and receivables	3,558	69,204	-	-
Total loans and receivables	49,792	168,322	-	2,000

7 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	Consolidated As at		Parent As at	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	Fair value \$'000	Fair value \$'000	Fair value \$'000	Fair value \$'000
Current				
Derivatives (foreign currency contracts) ¹	-	1,834	-	-
Listed equities	2,446	11,245	-	-
Units in controlled entities	-	-	106,733	146,456
Total current financial assets held at fair value through profit or loss	2,446	13,079	106,733	146,456
Non-current				
Underlying Investment Portfolio	831,339	1,114,256	831,339	1,114,256
Unlisted managed fund	34,131	-	-	-
Total non-current financial assets held at fair value through profit or loss	865,470	1,114,256	831,339	1,114,256

The Former Responsible Entity, on behalf of AIT, entered into a total return equity swap, referred to in this Report as the Leverage Facility. The Leverage Facility is denominated in US dollars and provides AIT with an exposure to a leverage portfolio of leading international absolute return funds, foreign exchange contracts and cash (Underlying Investment Portfolio).

¹ Foreign currency contracts were used by AIT to hedge against foreign currency exchange risks and are classified as held for trading.

8 RECONCILIATION OF PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	Consolidated Year ended		Parent Year ended	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	\$	\$	\$	\$
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities				
Profit/(loss) for the year	(299,957)	42,616	(299,954)	42,515
(Gain)/loss on derivatives (Foreign currency contracts)	7,583	(22,071)	-	(18,204)
Fair value (gain)/(loss) on Leverage Facility	280,077	(32,698)	280,077	(32,698)
Fair value (gain)/loss on direct financial assets	9,781	2,562	23,973	-
Foreign exchange gain/(loss) on loans and receivables	(4,932)	5,421	-	-
Foreign exchange gain/(loss) on translation of loan facility	(2,738)	(1,209)	-	-
Fair value (gain)/loss on units in controlled entity	-	-	-	(4,910)
(Increase)/decrease in receivables	6,713	(530)	40	(213)
(Decrease)/Increase in payables	520	3,440	42	2,739
Net cash inflow/(outflow) from operating activities	(2,953)	(2,469)	4,178	(10,771)

(b) Components of cash and cash equivalents

Cash as at the end of the financial year as shown in the cash flow statement is reconciled to the balance sheet as follows:

Cash and cash equivalents	81,977	10,831	55,076	5,282
	<u>81,977</u>	<u>10,831</u>	<u>55,076</u>	<u>5,282</u>

9 CASH AND CASH EQUIVALENTS

	Consolidated As at		Parent As at	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	\$'000	\$'000	\$'000	\$'000
Domestic cash at bank	76,773	8,558	55,076	5,282
Foreign currency holdings	5,204	2,273	-	-
	<u>81,977</u>	<u>10,831</u>	<u>55,076</u>	<u>5,282</u>

10 FINANCIAL LIABILITIES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	Consolidated As at		Parent As at	
	31 December 2008 Fair value \$'000	31 December 2007 Fair value \$'000	31 December 2008 Fair value \$'000	31 December 2007 Fair value \$'000
Current				
Derivatives (foreign currency contracts) ¹	8,083	-	-	-
Total current	<u>8,083</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-current				
Swap payable (Leverage)	565,542	519,712	565,542	519,712
Loan Facility	-	39,800	-	-
Interest rate swap	-	404	-	-
Total non-current	<u>565,542</u>	<u>559,916</u>	<u>565,542</u>	<u>519,712</u>
Total financial liabilities held at fair value through profit or loss	<u>573,625</u>	<u>559,916</u>	<u>565,542</u>	<u>519,712</u>

¹ Foreign currency contracts are used by AIT to hedge against foreign currency exchange risks and are classified as held for trading.

The Swap payable reflects the fair value of the leverage provided under the Leverage Facility.

11 RECEIVABLES

	Consolidated As at		Parent As at	
	31 December 2008 \$'000	31 December 2007 \$'000	31 December 2008 \$'000	31 December 2007 \$'000
Interest receivable	2,792	1,793	206	49
Dividend receivable	-	263	-	-
GST recoverable	190	386	190	386
Other receivables	136	-	-	-
Total receivables	<u>3,118</u>	<u>2,442</u>	<u>396</u>	<u>435</u>

No loss has been recognised in respect of receivables during the year ended 31 December 2008 [2007: nil].

12 PAYABLES

	Consolidated As at		Parent As at	
	31 December 2008 \$'000	31 December 2007 \$'000	31 December 2008 \$'000	31 December 2007 \$'000
Amounts owing to Former Responsible Entity	3,703	4,606	3,703	4,606
Fund administration and custody expenses	84	202	84	202
Legal expenses	875	-	875	-
Swap termination expense	1,034	-	-	-
Other payables	1,363	1,237	1,221	943
Total payables	7,059	6,045	5,883	5,751

13 UNITS ON ISSUE

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

	Consolidated As at		Parent As at	
	31 December 2008 No.	31 December 2007 No.	31 December 2008 \$'000	31 December 2007 \$'000
Opening balance	182,550,857	61,135,171	742,969	281,692
Units issued upon reinvestment of distributions	-	3,388,323	-	12,501
Units issued from Capital Raising	-	120,493,397	-	503,229
Units cancelled through buyback	(3,358,436)	(2,466,034)	(9,194)	(7,909)
Change in net assets attributable to unitholders	-	-	(311,656)	(27,424)
Transaction costs	-	-	-	(19,120)
Closing balance	179,192,421	182,550,857	422,119	742,969

	Consolidated As at		Parent As at	
	31 December 2008 No.	31 December 2007 No.	31 December 2008 \$'000	31 December 2007 \$'000
Opening balance	182,550,857	61,135,171	742,966	281,790
Units issued upon reinvestment of distributions	-	3,388,323	-	12,501
Units issued from Capital Raising	-	120,493,397	-	503,229
Units cancelled through buyback	(3,358,436)	(2,466,034)	(9,194)	(7,909)
Change in net assets attributable to unitholders	-	-	(311,653)	(27,525)
Transaction costs	-	-	-	(19,120)
Closing balance	179,192,421	182,550,857	422,119	742,966

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES

The Former Responsible Entity advises the following:

The purpose of the Investment Portfolio was to meet AIT's investment objective of attractive 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 leading international absolute return funds (Underlying Investment Portfolio) and select subordinated debt and equity company investments. The former Manager was responsible for the process of sourcing investments and conducting analysis and due diligence using the former Manager's selection criteria and the ongoing monitoring of the Investment Portfolio. The Investment Portfolio had to comply with agreed guidelines.

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

Financial instruments of AIT comprise investment 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 its operations.

The Former Responsible Entity (ECIML) entered into derivative transactions, principally a total return equity swap denominated in US dollars and forward currency contracts.

ECIML was responsible for identifying and controlling the risks that arise from these financial instruments.

The consolidated entity 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 by ECIML for the consolidated entity 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 the consolidated entity 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 was minimised by:

- ensuring counterparties, together with the respective credit limits, were approved
- ensuring that transactions were undertaken with a large number of counterparties, and
- ensuring that the majority of transactions were undertaken on recognised exchanges.

(i) Leverage Facility

The financial instruments of AIT are not transacted on recognised exchanges with the Leverage Facility transacted with a single counterparty (being Macquarie Group Limited). AIT therefore has concentration of credit risk to the counterparty to the Leverage Facility which matures on 31 December 2010. However, AIT mitigates this credit risk through the negotiation and structuring of the Leverage Facility. AIT has been granted first ranking charges over the Underlying Investment Portfolio that are held by the nominee and independent third party sub-custodian to hedge the obligations of the counterparty under the Leverage Facility.

AIT has credit exposure to the Leverage Facility to the amount of the intrinsic value of the Leverage Facility of \$265,797,002 [2007: \$594,544,000], being the Underlying Investment Portfolio of \$831,339,000 [2007: \$1,114,256,000] less the Leverage of \$565,541,998 [2007: \$519,712,000]. This credit risk is mitigated by the fact that assets with a total value of \$692,163,000 [2007: \$962,880,103] are held by third party custodians and subject to first ranking charges in favor of the Responsible Entity.

(ii) Direct assets

ECIML allocated capital to high yielding, income producing investments and securities which may be complemented by capital appreciation. These investments comprise the provision of subordinated debt which is exposed to risk of default in the event that the borrower is unable to make payments of either income and/or principal. In order to assess the degree of credit risk in these investments, ECIML undertook an analysis of the underlying business, industry and financial risks associated with the borrower to determine whether it has the ability to service its debt obligations during the life of the investment. This assessment included the review of due diligence materials, review of financial information including historical financial accounts and financial projections. This assessment was presented to the ECIML's Investment Committee which was responsible for the investment decisions.

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

The investment approach was to seek to construct a portfolio diversified by asset type, industry and geography. The range of allocation to the subordinated debt portfolio was 0% to 20% of the Investment Portfolio. Leverage is applied against this portfolio. This facility contained certain Investment Guidelines governing the composition of the portfolio of subordinated debt investments.

The Former Responsible Entity undertook an intensive and regular review of each of the direct assets in the Investment Portfolio. Each asset was formally reviewed against an impairment testing check list and presented to ECIML's Investment Committee and independent Pricing Committee, who were represented by risk and operations personnel not on the Investment Committee, on a semi annual basis.

In addition to this formal process, the Former Responsible Entity monitored financial and operational performance more regularly to the extent that issuers were required to provide more regular reporting. The reporting and covenant compliance requirements were managed via models which were designed to track these ongoing performance requirements.

Performance of the direct assets were typically measured by:

- the comparison of the latest actual financial performance (e.g. provided in management accounts, unaudited accounts or audited accounts) against the original base case financial model or budget;
- compliance with financial covenants (to the extent they are contained in transaction structures); and
- other key operational milestones (e.g. construction progress against budget and original construction schedule).

AIT has credit exposure to the counterparty of its foreign currency contracts to the amount of (\$8,083,000) [2007: \$1,834,000] as at balance date.

Risk concentrations of credit risk exposure

Concentration of credit risk is managed by counterparty, by geographical region and by industry sector.

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

2008 Consolidated	Australia A\$'000	US A\$'000	Other A\$'000	Total A\$'000
Cash and cash equivalents	76,773	5,204	-	81,977
Receivables	3,118	-	-	3,118
Financial assets designated as fair value through profit or loss	291,845	2,210	236	294,291
Loan and receivables	38,334	11,458	-	49,792
Total	410,070	18,872	236	429,178

The credit exposure of the financial assets designated as fair value through profit and loss in Australia represents the intrinsic value of the Leverage Facility of \$265,797,002 [2007: \$594,544,000], being the Underlying Investment Portfolio of \$831,339,000 [2007: \$1,114,256,000] less the Leverage of \$565,541,998 [2007: \$519,712,000]. This credit risk is mitigated by the fact that assets with a total value of \$692,163,000 [2007: \$962,880,103] are held by third party custodians and subject to first ranking charges in favor of the Responsible Entity.

2008 Parent - All AIT's financial assets are exposed to the Australian geographic region.

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

2007 Consolidated	Australia A\$'000	US A\$'000	Other A\$'000	Total A\$'000
Cash and cash equivalents	8,558	2,043	230	10,831
Receivables	1,476	702	264	2,442
Financial assets designated as fair value through profit or loss	594,544	8,967	4,112	607,623
Loan and receivables	98,010	54,957	15,355	168,322
Total	<u>702,588</u>	<u>66,669</u>	<u>19,961</u>	<u>789,218</u>

2007 Parent - All AIT's financial assets are exposed to the Australian geographic region.

An industry sector analysis of the consolidated entity's direct assets is as follows:

	2008 A\$'000	2007 A\$'000
Financial services	-	16,496
Rail	9,478	31,492
Ports	15,355	15,355
Property	13,500	59,779
Structured finance	3,795	8,879
Healthcare	-	27,011
Renewable energy	-	10,613
Oil and gas	7,900	17,776
Leasing	2,210	7,273
Total	<u>52,238</u>	<u>194,674</u>

In addition AIT has credit exposure to the Leverage Facility to the amount of the intrinsic value of the Leverage Facility of \$265,797,002 [2007: \$594,544,000], being the Underlying Investment Portfolio of \$831,339,000 [2007: \$1,114,256,000] less the Leverage of \$565,541,998 [2007: \$519,712,000]. This credit risk is mitigated by the fact that assets with a total value of \$692,163,000 [2007: \$962,880,103] are held by third party custodians and subject to first ranking charges in favor of the Responsible Entity.

The parent entity does not have different industry sector exposures outside of the financial services.

The parent entity holds no collateral as security or any other credit enhancements.

Impairment of direct assets.

During the year the former Responsible entity determined an impairment of \$8,173,000 was necessary against two of the direct assets. The impairment for one asset was determined based on the pending sale price of the asset, whereas the impairment of the second asset was based on management's best estimate due to the downgrading by Moody and S&P on the credit ratings associated with the asset.

(b) Liquidity and cash flow risk

Liquidity risk is the risk that the consolidated entity 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.

To control liquidity and cash flow risk the consolidated entity invests in accordance with agreed Investment Portfolio guidelines and leverage ratios to ensure there is no concentration of risk. It also implements its foreign exchange hedging program in a manner that facilitates effective cash flow management.

The table below analyses the consolidated entity's financial liabilities and net settled derivative financial liabilities into relevant maturity groupings based on the remaining period from 31 December 2008 to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due equal their carrying balances, as the impact of discounting is not significant.

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

	Less than 1 month \$'000	1-3 months \$'000	3-6 months \$'000	6-12 months \$'000	Greater than 12 months \$'000	Total \$'000
Consolidated						
At 31 December 2008						
Financial liabilities designated as fair value through profit or loss	-	8,083	-	-	565,542	573,625
Payables	7,059	-	-	-	-	7,059
Total financial liabilities	7,059	8,083	-	-	565,542	580,684

At 31 December 2007						
Financial liabilities designated as fair value through profit or loss	-	-	-	-	559,916	559,916
Payables	6,045	-	-	-	-	6,045
Total financial liabilities	6,045	-	-	-	559,916	565,961

	Less than 1 month \$'000	1-3 months \$'000	3-6 months \$'000	6-12 months \$'000	Greater than 12 months \$'000	Total \$'000
Parent						
At 31 December 2008						
Financial liabilities designated as fair value through profit or loss	-	-	-	-	565,542	565,542
Payables	5,883	-	-	-	-	5,883
Total financial liabilities	5,883	-	-	-	565,542	571,425

At 31 December 2007						
Financial liabilities designated as fair value through profit or loss	-	-	-	-	519,712	519,712
Payables	5,751	-	-	-	-	5,751
Total financial liabilities	5,751	-	-	-	519,712	525,463

(c) Market price risk

Market price risk is the risk that the value of the consolidated entity'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 and leverage guidelines outlined in this Note 14 and secondly that any direct investments and absolute return funds met the former Manager's selection, analysis and due diligence criteria. Market price risk analysis is conducted regularly on a total portfolio basis which includes the effect of derivatives.

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

(d) Foreign exchange risk

The consolidated entity is exposed to foreign exchange risk as a result of investments in financial instruments denominated in foreign currencies. The consolidated entity had exposure to foreign currency risk implicit in the value of portfolio securities denominated in a foreign currency, and transactional exposure arising from purchases or sales of securities.

In addition to the notional exposure to foreign exchange contracts embedded in the Underlying Investment Portfolio, the consolidated entity managed this risk by directly entering into foreign exchange forward contracts to hedge the risks arising from these transactions and balances. The terms and conditions of these contracts were typically three to nine month forward contracts. ECIML's policy for AIT was not to take material foreign exchange risk. Any gain or loss on foreign exchange valuation was materially offset with a gain or loss through its investments.

The following table indicates the currencies to which AIT had significant exposure at 31 December 2008 on its monetary assets and liabilities with the corresponding foreign exchange forward contracts highlighting the consolidated entity's net exposure to foreign exchange risk.

Consolidated 31 December 2008	Australian Dollars A\$'000	US Dollars A\$'000	Other currencies A\$'000	Total A\$'000
Assets				
Cash and cash equivalents	76,773	5,204	-	81,977
Receivables	3,118	-	-	3,118
Financial assets designated as fair value through profit or loss	(38,340)	906,020	236	867,916
Loans and receivables	38,334	11,458	-	49,792
Total assets	79,885	922,682	236	1,002,803
Liabilities				
Payables	7,059	-	-	7,059
Financial liabilities designated as fair value through profit or loss	8,083	565,542	-	573,625
Total liabilities (excluding net assets attributable to unitholders)	15,142	565,542	-	580,684
Net assets attributable to unitholders	64,743	357,140	236	422,119
Total foreign currency exposure	-	357,140	236	357,376
Total forward exchange contracts (notional and direct)	-	(356,046)	(145)	(356,190)
Net foreign currency exposure	-	1,095	91	1,186

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

Parent 31 December 2008	Australian Dollars A\$'000	US Dollars A\$'000	Other currencies A\$'000	Total A\$'000
Assets				
Cash and cash equivalents	55,076	-	-	55,076
Receivables	396	-	-	396
Financial assets designated as fair value through profit or loss	34,262	903,810	-	938,072
Total assets	89,734	903,810	-	993,544
Liabilities				
Payables	5,883	-	-	5,883
Financial liabilities designated as fair value through profit or loss	-	565,542	-	565,542
Total liabilities (excluding net assets attributable to unitholders)	5,883	565,542	-	571,425
Net assets attributable to unitholders	83,851	338,268	-	422,119
Total foreign currency exposure	-	338,268	-	338,268
Total notional forward exchange contracts (notional and direct)	-	(348,103)	-	(348,103)
Net foreign currency exposure	-	(9,834)	-	(9,834)

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

Consolidated 31 December 2007	Australian Dollars A\$'000	US Dollars A\$'000	Other currencies A\$'000	Total A\$'000
Assets				
Cash and cash equivalents	8,558	2,043	230	10,831
Receivables	1,476	614	352	2,442
Financial assets designated as fair value through profit or loss	27,440	1,095,783	4,112	1,127,335
Loans and receivables	120,647	47,675	-	168,322
Total assets	<u>158,121</u>	<u>1,146,115</u>	<u>4,694</u>	<u>1,308,930</u>
Liabilities				
Payables	6,045	-	-	6,045
Financial liabilities designated as fair value through profit or loss	10,000	549,916	-	559,916
Total liabilities (excluding net assets attributable to unitholders)	<u>16,045</u>	<u>549,916</u>	<u>-</u>	<u>565,961</u>
Net assets attributable to unitholders	142,076	596,199	4,694	742,969
Total foreign currency exposure	-	596,199	4,694	600,893
Total forward exchange contracts (notional and direct)	-	(599,518)	(4,039)	(603,557)
Net foreign currency exposure	-	(3,319)	655	(2,664)

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

Parent 31 December 2007	Australian Dollars A\$'000	US Dollars A\$'000	Other currencies A\$'000	Total A\$'000
Assets				
Cash and cash equivalents	5,282	-	-	5,282
Receivables	435	-	-	435
Financial assets designated as fair value through profit or loss	173,896	1,086,816	-	1,260,712
Loans and receivables	2,000	-	-	2,000
Total assets	<u>181,613</u>	<u>1,086,816</u>	<u>-</u>	<u>1,268,429</u>
Liabilities				
Payables	5,751	-	-	5,751
Financial liabilities designated as fair value through profit or loss	-	519,712	-	519,712
Total liabilities (excluding net assets attributable to unitholders)	<u>5,751</u>	<u>519,712</u>	<u>-</u>	<u>525,463</u>
Net assets attributable to unitholders	175,862	567,104	-	742,966
Total foreign currency exposure	-	567,104	-	567,104
Total forward exchange contracts (notional and direct)	-	560,827	-	560,827
Net foreign currency exposure	-	6,277	-	6,277

(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.

The consolidated entity has notional exposure to interest rate risk with respect of the payable under the Leverage Facility. The interest rate is determined as the US dollar base rate for the relevant interest period plus a margin that is agreed with the counterparty from time to time.

The former Manager was responsible, through its Investment and Risk Management Committees, for managing direct interest rate risk with respect to the Leverage and Loan Facilities and investment in fixed interest securities, and reporting any issues to the Board.

The consolidated entity's exposure to interest rate risk and the weighted average effective interest rate is set out in the following table:

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

Consolidated 31 December 2008	Weighted average interest rate (% pa)	Floating interest rate \$'000	Fixed interest rate				Greater than 12 months \$'000	Non-interest bearing \$'000	Total \$'000	
			1-3 months \$'000	3-6 months \$'000	6-12 months \$'000					
Assets										
Cash and cash equivalents	5.15	81,977	-	-	-	-	-	-	81,977	
Receivables		-	-	-	-	-	3,118	3,118		
Financial assets designated as fair value through profit or loss		-	-	-	-	-	867,916	867,916		
Loans and receivables	13.00	-	9,478	21,400	15,355	3,559	-	49,792		
Total assets		<u>81,977</u>	<u>9,478</u>	<u>21,400</u>	<u>15,355</u>	<u>3,559</u>	<u>871,034</u>	<u>1,002,803</u>		
Liabilities										
Payables		-	-	-	-	-	7,059	7,059		
Financial liabilities designated as fair value through profit or loss	10.10	<u>565,542</u>	-	-	-	-	<u>8,083</u>	<u>573,625</u>		
Total liabilities (excluding net assets attributable to unitholders)		<u>565,542</u>	-	-	-	-	<u>15,142</u>	<u>580,684</u>		
Net exposure		<u>(427,366)</u>	<u>9,478</u>	<u>21,400</u>	<u>15,355</u>	<u>3,559</u>	<u>855,892</u>	<u>422,119</u>		

Parent 31 December 2008	Weighted average interest rate (% pa)	Floating interest rate \$'000	Fixed interest rate				Non-interest bearing \$'000	Total \$'000
			1-3 months \$'000	3-6 months \$'000	6-12 months \$'000	Greater than 12 months \$'000		
Assets								
Cash and cash equivalents	5.82	55,076	-	-	-	-	-	55,076
Receivables		-	-	-	-	-	396	396
Financial assets designated as fair value through profit or loss		-	-	-	-	-	938,072	938,072
Total assets		55,076	-	-	-	-	938,468	993,544
Liabilities								
Payables		-	-	-	-	-	5,883	5,883
Financial liabilities designated as fair value through profit or loss	10.62	509,343	56,199	-	-	-	-	565,542
Total liabilities (excluding net assets attributable to unitholders)		509,343	56,199	-	-	-	5,883	571,425
Net exposure		(454,267)	(56,199)	-	-	-	932,585	422,119

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

Consolidated 31 December 2007	Weighted average interest rate (% pa)	Floating interest rate \$'000	Fixed interest rate				Greater than 12 months \$'000	Non-interest bearing \$'000	Total \$'000
			1-3 months \$'000	3-6 months \$'000	6-12 months \$'000				
Assets									
Cash and cash equivalents	5.70	10,831	-	-	-	-	-	-	10,831
Receivables		-	-	-	-	-	-	2,442	2,442
Financial assets designated as fair value through profit or loss		-	-	-	-	-	-	1,127,335	1,127,335
Loans and receivables	10.29	-	-	70,701	28,418	69,203	-	-	168,322
Total assets		<u>10,831</u>	<u>-</u>	<u>70,701</u>	<u>28,418</u>	<u>69,203</u>	<u>1,129,777</u>	<u>-</u>	<u>1,308,930</u>
Liabilities									
Payables		-	-	-	-	-	-	6,045	6,045
Financial liabilities designated as fair value through profit or loss	6.20	-	559,916	-	-	-	-	-	559,916
Total liabilities (excluding net assets attributable to unitholders)		<u>-</u>	<u>559,916</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,045</u>	<u>565,961</u>
Net exposure		<u>10,831</u>	<u>(559,916)</u>	<u>70,701</u>	<u>28,418</u>	<u>69,203</u>	<u>1,123,732</u>	<u>-</u>	<u>742,969</u>

Parent 31 December 2007	Weighted average interest rate (% pa)	Floating interest rate \$'000	Fixed interest rate				Great than 12 months \$'000	Non-interest bearing \$'000	Total \$'000
			1-3 months \$'000	3-6 months \$'000	6-12 months \$'000				
Assets									
Cash and cash equivalents	6.03	5,282	-	-	-	-	-	-	5,282
Receivables		-	-	-	-	-	-	435	435
Financial assets designated as fair value through profit or loss		-	-	-	-	-	-	1,260,712	1,260,712
Loans and receivables	7.27	-	-	2,000	-	-	-	-	2,000
Total assets		<u>5,282</u>	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,261,147</u>	<u>1,268,429</u>
Liabilities									
Payables		-	-	-	-	-	-	5,751	5,751
Financial liabilities designated as fair value through profit or loss	6.18	-	519,712	-	-	-	-	-	519,712
Total liabilities (excluding net assets attributable to unitholders)		<u>-</u>	<u>519,712</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,751</u>	<u>525,463</u>
Net exposure		<u>5,282</u>	<u>(519,712)</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,255,396</u>	<u>742,966</u>

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

The following table demonstrates the sensitivity of AIT's income statement to a reasonable possible change in interest rates, with all other variables held constant.

The 84 and -16 basis point sensitivity is based on the volatility of change in the US cash interest rates to nil or up to 1% based on current rate of 0.16%.

The sensitivity on the income statement is the effect of the assumed changes in interest rates on:

- the interest expense for one year, based on the floating rate financial liabilities held at 31 December 2008; and
- changes in the fair value of the Leverage Facility for the year.

2008

Country	Change in basis points Increase/decrease	Sensitivity of interest expense Increase/decrease \$'000	Sensitivity of changes in fair value of financial liabilities
			Increase/decrease \$'000
US Interest rate	+0.84bp/-0.16bp	44/(8)	3,333/(646)

2007

Country	Change in basis points Increase/decrease	Sensitivity of interest expense Increase/decrease \$'000	Sensitivity of changes in fair value of financial liabilities
			Increase/decrease \$'000
US Interest rate	+40bp/-40bp	40/(40)	1,821/(1,821)

(f) 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 direct investments in listed equity.

The effect on the income statement due to a reasonably possible change in market factors, as represented by the equity indices, with all other variables held constant is indicated in the table below.

The 20% point sensitivity is based on the volatility of change of the relevant stock indices over a 10 year period.

Index	2008		2007	
	Change in equity price	Effect on net profit attributable to unitholders \$'000	Change in equity price	Effect on net profit attributable to unitholders \$'000
NYSE	-20%/+20%	(443)/443	-20%/+20%	(1,455)/1,455
SGX	-20%/+20%	(48)/48	-20%/+20%	(794)/794

All financial assets and financial liabilities included in the balance sheet are carried at fair value.

The carrying amounts of all the consolidated entity's financial assets and financial liabilities at the balance sheet date approximated their fair values as all financial assets and liabilities not fair valued are short-term in nature.

14 FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

Investment & leverage guidelines

Leverage Facility

Facility Limit - US\$725,000,000 less the amount of any principal and accrued interest outstanding under the Loan Facility (discussed below).

The Leverage Facility contained certain investment guidelines governing the composition of the Underlying Investment Portfolio. The Responsible Entity may only alter the Underlying Investment Portfolio outside these guidelines with the consent of the Leverage Facility Provider. Key guidelines include:

- the Underlying Investment Portfolio must be diversified across at least 20 permitted absolute return funds, with minimum and maximum limits set as to the exposure to single investment strategies;
- the Underlying Investment Portfolio must not have more than 10% of its value comprised of any one absolute return fund, more than 15% of its value comprised of funds managed by the same absolute return fund manager or more than 40% of its value comprised of the largest five permitted absolute return funds (by value);
- no more than 15% of the value of the Underlying Investment Portfolio may be comprised by funds whose fund managers have less than 24 months track record; and
- the Underlying Investment Portfolio must meet minimum liquidity requirements by, amongst other things, maintaining at least 20% of the Underlying Investment Portfolio in permitted funds which have liquidity terms equal to or better than monthly redemptions with a notice period of 60 days.

AIT targeted a leverage ratio of 50%, however, under the Leverage Facility (prior to amendment after balance date) the leverage ratio must not exceed 60% at any time. If this occurred, AIT must rebalance the leverage ratio to 55% by reducing part of the Underlying Investment Portfolio and/or paying an amount to the Leverage Facility Provider to bring the ratio within 55%.

As stated in the Supplementary Meeting Booklet (issued 23 December 2008) the impact of negative investment performance and adverse foreign exchange movements in late 2008 resulted in the Trust temporarily exceeding the maximum leverage ratio permitted under the Leverage Facility. To address this issue, the leverage ratio was being reduced through redemption from underlying managers and the use of cash held outside the Leverage Facility.

Investment strategy

The Allocation ranges followed as part of AIT's investment strategy were:

- a diversified portfolio of absolute return funds will make up 75%-100% of the Investment Portfolio;
- subordinated debt investments will make up 0%-20% of the investment portfolio; and
- equity co-investments will make up 0%-5% of the Investment Portfolio.

Capital management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for unitholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may return capital to unitholders, issue new units or sell assets to reduce debt. The Group is not required to comply with any externally imposed capital requirements.

15 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business the consolidated entity enters into transactions in various derivative financial instruments with certain risks. The carrying value of these investments is disclosed in notes 7 and 10. 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 of physical securities
- hedging to protect an asset or liability of the consolidated entity against a fluctuation in market values or to reduce volatility
- increases or adjusting asset exposures within the parameters set in the investment strategy, (for example adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios).

(a) Swaps

(i) Total return equity swap

Terms and conditions

The Former Responsible Entity entered into a total return equity swap maturing 31 December 2010, referred to in this Report as the Leverage Facility.

In summary, the terms of the Leverage Facility as at 31 December 2008 were:

- The Leverage Facility provides a synthetic exposure to a diversified portfolio of leading international absolute return funds, foreign exchange contracts and cash (Underlying Investment Portfolio) which comply with investment guidelines agreed with the provider of the Leverage Facility.
- The Leverage Facility is denominated in US dollars, however, it is translated to \$A at the prevailing exchange rate for presentation in the accounts.
- The Leverage Facility Provider provides notional leverage and undertakes to pay AIT a return equal to what it would receive if it had invested in the specified Underlying Investment Portfolio taking into account the leverage provided during the term of the Leverage Facility which is for 3 years.
- There is an ability to increase or reduce the amount of leverage. Leverage notionally accrues and capitalises interest, which has the impact of increasing leverage over time.
- The interest rate is determined as US LIBOR for the relevant interest period plus a margin that is agreed with the counterparty from time to time.
- The interest period in respect of any portion of the leverage may be between one day and five years.
- There is an ability to change the composition of the Underlying Investment Portfolio, with the consent of the Leverage Facility Provider.
- There is an ability to increase or decrease the Underlying Investment Portfolio, for example, through additional contributions to the Leverage Facility or a request for additional leverage, with the consent of the Leverage Facility Provider.
- Each portion of leverage is a 'Strike' and the total amount of such leverage is the 'Aggregate Strike'. The fair value of the Leverage Facility at any particular time is calculated as the value of the Underlying Investment Portfolio less the Aggregate Strike and is defined as the 'Intrinsic Value'.
- The fair value of the Underlying Investment portfolio is determined by the calculation agent (an entity associated with the Leverage Facility Provider) who must use the value advised to it by the administrators of the underlying absolute return funds or, where available, other reliable independent third party administrators as agreed with the Former Responsible Entity.

15 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

- The Leverage Facility has a maturity date of 31 December 2010.
- At maturity date or early termination (as these terms are defined in the Leverage Facility) the former Responsible Entity is entitled to payment of the Intrinsic Value but may elect for cash or physical settlement to a nominated third party.
- There are various terms and conditions covering termination events, market disruption and events of default. Some of these terms are market standard and others are additional terms negotiated as part of the transaction.

(ii) Interest rate swap

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The interest rate swap expires on 29 November 2010 and is used to hedge against interest rate fluctuations by swapping fixed rate obligations for floating rate obligations. The interest rate swaps have since expired.

(b) Fair values

Financial assets, financial liabilities and derivatives are carried at fair value. For other assets and liabilities their carrying amount approximates their fair value due to their short term nature.

(c) Foreign exchange

In addition to the notional exposure to foreign exchange contracts embedded in the Underlying Investment Portfolio, AIT directly entered into foreign exchange contracts.

Forward currency contracts were primarily used by the consolidated entity to hedge against foreign currency exchange rate risks on its non Australian dollar denominated trading securities. The consolidated entity agreed to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts were valued at the prevailing bid price at the reporting date. The consolidated entity recognises a gain or loss equal to the change in fair value at the reporting date.

These foreign exchange contracts were being used to reduce the exposure to foreign exchange risk. The terms of these contracts are disclosed in the table below.

In addition to the notional exposure to foreign exchange contracts embedded in the Underlying Investment Portfolio, AIT directly entered into the following foreign exchange contracts.

15 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Consolidated 31 December 2008

	Maturity	Exchange rate	AUD Revaluation \$'000
Sell US\$ / Buy A\$			
US\$ 47,150,000	16 January 2009	A\$/US\$0.84086	(10,850)
Buy US\$ / Sell A\$			
US\$ 21,150,000	16 January 2009	A\$/US\$0.7784	2,849
US\$ 1,600,000	16 January 2009	A\$/US\$0.8300	343
US\$ 4,730,000	16 January 2009	A\$/US\$0.70206	(24)
US\$ 5,600,000	16 January 2009	A\$/US\$0.6821	(261)
Buy SGD\$ / Sell A\$			
SGD\$ 490,000	16 January 2009	SGD\$/A\$0.9494	(31)
Sell SGD\$ / Buy A\$			
SGD\$ 725,000	16 January 2009	SGD\$/A\$1.19055	(109)
Fair value gain on derivatives (Foreign exchange hedging)			(8,083)

Parent 31 December 2008

No direct exposure to foreign exchange contracts.

Consolidated 31 December 2007

	Maturity	Exchange rate	AUD Revaluation \$'000
Sell US\$ / Buy A\$			
US\$ 12,000,000	15 January 2008	A\$/US\$0.7975	1,326
US\$ 8,000,000	28 February 2008	A\$/US\$0.8745	(25)
US\$ 6,000,000	28 February 2008	A\$/US\$0.8720	1
US\$ 12,000,000	28 February 2008	A\$/US\$0.8706	23
US\$ 5,000,000	5 March 2008	A\$/US\$0.8157	394
Buy US\$ / Sell A\$			
US\$ 12,000,000	15 January 2008	A\$/US\$0.8730	(24)
US\$ 650,000	5 March 2008	A\$/US\$0.8711	(1)
Buy SGD\$ / Sell A\$			
SGD\$ 5,100,000	15 January 2008	SGD\$/US\$0.7931	14
Sell SGD\$ / Buy A\$			
SGD\$ 5,100,000	15 January 2008	SGD\$/US\$0.8243	145
SGD\$ 5,100,000	28 February 2008	SGD\$/US\$0.7969	(19)
Fair value gain on derivatives (Foreign exchange hedging)			1,834

Parent 31 December 2007

No direct exposure to foreign exchange contracts.

16 RELATED PARTY TRANSACTIONS

Responsible Entity

The Former Responsible Entity of Alternative Investment Trust (Formerly Everest Babcock & Brown Alternative Investment Trust) was Everest Capital Investment Management Limited.

Key management personnel

(a) Directors of the Former Responsible Entity up to and including 4 February 2009

Key management personnel includes persons who were Directors the Former Responsible Entity Everest Capital Investment Management Limited at any time during the year and until the date of this report were as follows:

Trevor Gerber	(Non-Executive Chairman) (Resigned 6 February 2009)
Marea Laszok	(Independent Director) (Resigned 6 February 2009)
Warick Leeming	(Independent Director) (Resigned 19 December 2008)
Peter Williams	(Independent Director) (Resigned 19 December 2008)
Jeremy Reid	(Executive Director)

(b) Directors of the new Responsible Entity Permanent Investment Management Limited as from 5 February 2009 are;

John Atkin	Executive Director (Appointed 27 January 2009)
Vicki Allen	Executive Director
Michael Britton	Executive Director
David Grbin	Executive Director (Appointed 22 July 2008)
Eugene Quass	Executive Director (Resigned 13 February 2009)

(c) Other personnel

The following persons of ECIML also had authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly during the year as follows:

Gary Kalmin (Company Secretary and Head of Corporate Development) (appointed 1 July 2008)
Aaron Budai (Chief Financial Officer) (appointed 1 July 2008)
John Peterson (Chief Risk Officer)
Steve McKenna (Head of Absolute Return Funds)
Will Peterson (Head of Direct Investments)
Azra Popo (Company Secretary and General Counsel) (resigned 30 November 2008)
Brian O'Sullivan (Company Secretary and CFO) (resigned 30 June 2008)

The Former Responsible Entity is also considered to be key management personnel with the authority for the strategic direction and management of AIT.

Remuneration of key management personnel

Fees and payments to independent Directors of the Former Responsible Entity reflect the demands and the responsibilities placed on the independent Directors and cover all former Board activities and membership of their committees. In order to meet its objectives for unitholders it is essential that ECIML was able to secure and maintain the services of professional, competent and highly motivated independent Directors, executives and staff.

For the 2008 financial year the former Non Executive Chairman's remuneration was set at \$60,000 per annum (inclusive of superannuation). Former Independent Directors' remuneration was set at \$40,000 per annum (exclusive of superannuation). The former Independent Directors did not receive bonuses nor were they issued options on AIT units. The former independent Directors' remuneration was not linked to the performance of AIT.

All of the Directors of the Former Responsible Entity were considered to be the Key Management Personnel (KMP) of AIT. The following is remuneration received by KMP of the Former Responsible Entity for the year ended 31 December 2008:

16 RELATED PARTY TRANSACTIONS (continued)

Name	Position	Short Term Incentives			Post Employment Benefits	Long Term Incentives		Total
						Retention Bonus	Share Based Payment Compensation	
		Salary & Fees	Cash bonus	Non monetary benefits	Superannuation		Options	
							\$	
2008 Directors								-
Trevor Gerber	Non Executive Chairman	154,220	-	-	5,780	-	-	160,000
Warick Leeming	Independent Director	15,291	-	-	61,376	-	-	76,667
Marea Laszok	Independent Director	15,291	-	-	61,376	-	-	76,667
Peter Williams	Independent Director	33,232	-	-	43,435	-	-	76,667
Jeremy Reid ¹	Director	26,316	16,855	523	707	4,693	-	49,094
Executives								
Brian O'Sullivan ^{1, 2}	Chief Financial Officer	5,837	-	230	2,977	4,471	9,724	23,239
	Head of Corporate Development	13,912	15,658	230	707	2,251	-	32,758
Gary Kalmin ^{1, 3}	Chief Financial Officer	10,165	4,421	459	707	1,988	2,269	20,009
Aaron Budai ^{1, 3}	Chief Risk Officer	14,579	5,526	-	707	1,056	3,782	25,650
John Peterson ¹	—Head of Absolute Return Funds	13,158	8,289	-	707	11,025	7,563	40,743
Steve McKenna ¹	—Head of Direct Investments	13,158	8,289	-	707	10,738	7,371	40,263
Will Peterson ¹								
Total		315,159	59,038	1,442	179,186	36,221	30,709	621,756

During the year to address the trading discount to NTA, external adviser UBS along with the non-executive and independent directors of ECIML conducted a review and assessed a range of strategic initiatives to develop an effective and equitable long term solution to AIT's discount to NTA. As part of these procedures and in addition to his annual director fees, Trevor Gerber (Chairman) was paid a further \$90,000 (excl GST) for the extensive time spent on this review.

Name	Position	Short Term Incentives			Post Employment Benefits	Long Term Incentives		Total
						Retention Bonus	Share Based Payment Compensation	
		Salary & Fees	Cash bonus	Non monetary benefits	Superannuation		Options	
		\$	\$	\$	\$	\$	\$	\$
2007 Directors								-
Trevor Gerber	Non Executive Chairman	41,284	-	-	18,716	-	-	60,000
Warwick Leeming	Independent Director	-	-	-	43,600	-	-	43,600
Marea Laszok	Independent Director	-	-	-	43,600	-	-	43,600
Peter Williams	Independent Director	-	-	-	27,942	-	-	27,942
Jeremy Reid ¹	Director	26,316	33,711	911	679	-	-	61,617
Executives								
Brian O'Sullivan ¹	Chief Financial Officer	13,296	12,895	780	679	5,567	18,623	51,840
John Peterson ¹	Chief Risk Officer	15,028	3,684	-	679	4,386	6,208	29,985
	Portfolio –Head of Absolute Return Funds	11,579	8,289	-	679	5,633	12,415	38,595
Steve McKenna ¹	–Head of Direct Investments	12,218	8,289	-	679	2,345	3,686	27,217
Will Peterson ¹								
Total		119,721	66,868	1,691	137,253	17,931	40,932	384,396

- 1 Remuneration of KMPs were paid directly by the Manager and they did not receive any remuneration directly from EBI. Options granted are options over ordinary shares in Everest Financial Group Limited.
2 Resigned 30 June 2008
3 Appointed 1 July 2008

AIT did not have any employees. Remuneration to KMPs and employees were paid directly by the former Manager. The remuneration of KMP disclosed has been allocated based on each KMP's cost of remuneration applicable to AIT. In relation to Jeremy Reid and Executives, the total cost of their remuneration has been allocated to each such fund/scheme managed by the former Manager. Their remuneration cost has been allocated evenly across all funds/schemes.

Key management personnel loan disclosures

The consolidated entity 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 the consolidated entity

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

(a) Former Responsible Entity's/ Former Manager's fees and Performance fees

In accordance with AIT's Constitution, the Former Responsible Entity received a total fee of 1.25% (exclusive of GST, net of tax credits available to the consolidated entity) per annum on AIT's assets.

The Former Responsible Entity was also entitled to receive an annual performance fee equal to 20% of the amount by which the actual total security holder return exceeds a notional 10% pa compounded pre tax total security holder return, less the aggregate of any performance fees previously received by the Former Responsible Entity. Total security holder return is calculated in accordance with a formula in the AIT's Constitution.

(b) New Responsible Entity/ New Manager's fees

As disclosed at the unitholders meeting held 30 January 2009, the new Responsible Entity Permanent Investment Management Limited will charge \$1million for year 1 (excluding GST) payable monthly in arrears and thereafter 0.1% of gross assets per annum subject to a minimum of \$80k per annum.

Directors of the new Responsible Entity Permanent Investment Management Limited will not be receiving any fees from AIT.

Laxey Partners (UK) Ltd the new manager will charge 0.75% per annum (excluding GST) of gross assets and 1% of distributions paid to investors (excluding GST). The Responsible Entity Fees and Managers Fees in total are not to exceed 1.25% per annum of gross assets.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the consolidated entity and the Former Responsible Entity were as follows:

	Consolidated As at		Parent As at	
	31 December 2008 \$'000	31 December 2007 \$'000	31 December 2008 \$'000	31 December 2007 \$'000
Management fees for the year ended to the Former Responsible Entity	<u>15,542</u>	<u>14,156</u>	<u>15,542</u>	<u>14,156</u>

Performance fees paid by AIT to the former Manager during the year were nil [2007: nil].

(b) Investments in unlisted funds managed by Everest Capital Limited

AIT has invested 45,508,511 units [2007: nil] valued at \$34,131,384 [2007: nil] within a zero fee paying class in the Everest Babcock & Brown Income Fund (EBBIF) at 31 December 2008. The Responsible Entity of EBBIF is Everest Capital Limited. This investment allows AIT to achieve its intention of accessing a diversified portfolio of assets and gaining exposure to direct investments in subordinated debt.

Everest Capital Limited is an entity that is a part of the same wholly owned group as Everest Capital Investment Management Limited.

17 SUBSIDIARIES

Subsidiary:	EBI Income Fund
Country of incorporation:	Australia
Acquisition date:	6 December 2006
Percentage owned:	100%
Subsidiary:	EBI Opportunities Fund
Country of incorporation:	Australia
Acquisition date:	6 December 2006
Percentage owned:	100%

18 AUDITOR'S REMUNERATION

During the year the following fees were paid or payable for services provided by the auditor:

	Consolidated Year ended		Parent Year ended	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	\$'000	\$'000	\$'000	\$'000
<i>During the year the auditor earned the following remuneration:</i>				
Ernst & Young				
Audit and review of financial statements	131	105	131	105
Assurance services	-	20	-	20
Total remuneration	131	125	131	125

ECIML's Audit & Risk Management Committee oversaw the relationship with the external auditors. The former Audit & Risk Management Committee reviewed the scope of the audit and the proposed fees. Other non audit services would not normally be provided by the external audit firm. However, if for special reasons such services were to be proposed, the former Audit & Risk Management Committee would review the proposal to also ensure they did not affect the independence of the external audit function.

DIRECTORS' DECLARATION

1. In accordance with a resolution of the Directors of Permanent Investment Management Limited, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of AIT and the consolidated entity are in accordance with the *Corporations Act 2001* including:
 - (i) giving a true and fair view of AITs and the consolidated entity's financial position as at 31 December 2008 and of their performance, for the year ended on that date.
 - (ii) comply with Accounting Standards and the *Corporations Regulations 2001*; and
 - (b) there are reasonable grounds to believe that AIT and the consolidated entity will be able to pay their debts as and when they become due and payable.
2. This declaration is made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the year ended 31 December 2008.

On behalf of the Board,



Vicki Allen
Director
Sydney, 27 March 2009

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

We have audited the accompanying financial report of Alternative Investment Trust (the 'Trust'), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in net assets attributable to unitholders and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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.

Directors' Responsibility for the Financial Report

The directors of the responsible entity are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our 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, we consider internal controls relevant to the 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 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 met 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 to the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

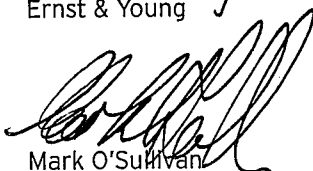
1. the financial report of Alternative Investment Trust is in accordance with the *Corporations Act 2001*, including:

- i giving a true and fair view of the financial position of Alternative Investment Trust and the consolidated entity at 31 December 2008 and of their performance for the year ended on that date; and
- ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

A handwritten signature in black ink, appearing to read 'Mark O'Sullivan'.

Ernst & Young

A second handwritten signature in black ink, appearing to read 'Mark O'Sullivan'.

Mark O'Sullivan
Partner
Sydney
27 March 2009

UNITHOLDER INFORMATION

The following unitholder information as at 27 March 2009

A Distribution of unitholders

Size of holding	Number of unitholders
Ranges	
1 to 1000	1781
1001 to 5000	705
5001 to 10000	326
10001 to 100000	369
100001 and Over	<u>26</u>
Total	<u>3207</u>

B 20 largest unit holders

Rank	Name of Unit holder	Number of units	% of issued units
1	National Nominees Limited	46642131	35.69
2	HSBC Custody Nominees (Australia) Limited	30743474	23.52
3	Citicorp Nominees Pty Limited	22339284	17.09
4	UBS Wealth Management Australia Nominees Pty Ltd	3179211	2.43
5	HSBC Custody Nominees (Australia) Limited	2984479	2.28
6	Cogent Nominees Pty Limited	2652600	2.03
7	ANZ Nominees Limite	1052981	0.81
8	Chriswall Holdings Pty Ltd	1000000	0.77
9	HSBC Custody Nominees (Australia) Limited	976619	0.75
10	Yuills Australia Pty Ltd	731600	0.56
11	UBS Nominees Pty Ltd	670008	0.51
12	Cass & Co	501845	0.38
13	Escor Investments Pty Ltd	361400	0.28
14	RBC Dexia Investor Services	292016	0.22
15	Christopher Ellis	254784	0.19
16	XGen Mobile PTE Ltd #28 M and More	221025	0.17
17	Crofton Park Developments Pty Ltd	200000	0.15
18	Radiata Investments Pty Ltd	193231	0.15
19	Eric George Baker & Janine Marie Baker	182000	0.14
20	Bullimore Investments Pty Ltd	<u>170000</u>	0.13
TOTAL		<u>115,348,688</u>	88.25

C SUBSTANTIAL UNITHOLDERS

Name of Unitholder	Number of Securities	% of issued units
National Nominees Limited	46642131	35.69
HSBC Custody Nominees (Australia) Limited	30743474	23.52

D Voting Rights

Voting which may attach to or be imposed on any Unit or Class of Units are as follows;

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