

APPENDIX 4D

**Half Year Report
For the half-year ended 30 June 2014**

Name of entity: Alternative Investment Trust

1 REPORTING PERIOD AND PREVIOUS CORRESPONDING PERIOD

Current Reporting Period:	6 months to 30 June 2014
Previous Corresponding Period:	6 months to 30 June 2013

2 RESULTS FOR ANNOUNCEMENT TO THE MARKET

		2014 \$'000	2013 \$'000
2.1 Investment (loss) / income	Down 109.04% to	(566)	6,259
2.2 Change in net assets attributable to unitholders (excluding capital returns)	Down 118.46% to	(998)	5,405
2.3 (loss) / profit attributable to unitholders	Down 118.46% to	(998)	5,405

	2014		2013	
	Amount per security	Tax deferred	Amount per security	Tax Deferred
2.4 Distributions:	-	-	-	-
Final distribution	-	-	-	-
Interim distribution	-	-	-	-

2.5 Record date for determining entitlements to the final 2014 distribution - 30 June 2014
No distribution was declared or paid for the half-year ended 30 June 2014 (30 June 2013: \$nil).

2.6 An explanation of results is indicated on page 4 of the interim financial report.

3 NET TANGIBLE ASSETS PER SECURITY

NTA per security as at 30 June 2014 (Ex distribution)	\$0.16
NTA per security as at 30 June 2013 (Ex distribution)	\$0.38

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

Not applicable

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

No distribution was declared or paid for the half-year ended 30 June 2014 (30 June 2013: \$nil).

6 DETAILS OF ANY DIVIDEND OR DISTRIBUTION REINVESTMENT PLANS IN OPERATION

Not applicable

7 DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

Not applicable

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

Not applicable

9 This report is based on the half year report which has been subject to a review by Ernst & Young.

Alternative Investment Trust

ARSN 112 129 218

Interim Financial Report for the Half-Year Ended 30 June 2014

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DIRECTORS' REPORT

The Directors of The Trust Company (RE Services) Limited (the "Responsible Entity"), the Responsible Entity of the Alternative Investment Trust ("AIT"), present their report together with the financial report of AIT for the half-year ended 30 June 2014. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

RESPONSIBLE ENTITY

The Responsible Entity of AIT is The Trust Company (RE Services) Limited (ABN 45 003 278 831; AFSL 235150). The registered office and principal place of business of the Responsible Entity is Level 15, 20 Bond Street, Sydney, NSW 2000.

On 28 November 2013 shareholders of The Trust Company Limited (the then ultimate parent of The Trust Company (RE Services) Limited, the Responsible Entity of the fund) voted to accept a proposal from Perpetual Limited for it to acquire 100% of The Trust Company by way of a Scheme of Arrangement. On 18 December 2013, the Scheme of Arrangement was formally implemented and The Trust Company became wholly owned by Perpetual Limited.

Investment Manager

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

Directors of the Responsible Entity

The Directors of the Responsible Entity, The Trust Company (RE Services) Limited, during the half-year and until the date of this report (unless otherwise noted) were:

Name

Andrew Cannane

Christopher Green (appointed Director on 7 March 2014)

Gillian Larkins (appointed Director on 7 March 2014)

David Grbin (resigned on 7 March 2014)

Rupert Smoker (resigned on 7 March 2014)

Joanne Hawkins (Alternate Director for Gillian Larkins, appointed on 7 March 2014)

Glenn Foster (Alternate Director for Gillian Larkins, appointed on 7 March 2014)

Anna O'Sullivan (Alternate Director for each of Andrew Cannane and Christopher Green, appointed on 7 March 2014)

PRINCIPAL ACTIVITIES

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

AIT is currently in a process of asset realisation. During the half-year ended 30 June 2014, the Responsible Entity made two capital returns totalling to \$11.8 million (2013: \$26.1 million). Since the appointment of Laxey and the Responsible Entity, capital of \$224.8 million has been returned to the unitholders of AIT up to 30 June 2014 (2013: \$196.1 million).

REVIEW AND RESULTS OF OPERATIONS

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

DIRECTORS' REPORT (CONTINUED)

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

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

	Half-year ended 30 June 2014 \$'000	30 June 2013 \$'000
Change in net assets attributable to unitholders (before impact of capital returns)	(998)	5,405

Cost Review

The Responsible Entity and Laxey have continued to identify cost-saving opportunities where possible.

Effective 1 January 2014, the following terms have been agreed with Laxey:

As advised to the ASX on 26 June 2013, with effect from 1 January 2014, the management fee arrangements with Laxey have been renegotiated. Laxey now receives fees equal to the lower of AUD 200,000 or 0.75% of the average value of gross assets of AIT with no distribution fees. These revised fee arrangements continue to be subject to both the overall fee cap of 1.25% per annum of the average value of gross assets of AIT and the Responsible Entity fee of AUD 80,000.

As part of the Responsible Entity's focus on ongoing operating costs, other expenses such as administration, audit and tax have reduced or been maintained at a level consistent with the prior year.

VALUE OF ASSETS AND UNITS ISSUED

The total value of AIT's assets at 30 June 2014 is \$21,537,000 (31 December 2013: \$34,303,000). The total number of units on issue as at 30 June 2014 is 130,692,470 (31 December 2013: 130,692,470).

DISTRIBUTION/RETURN OF CAPITAL

There were 2 returns of capital during the half-year ended 30 June 2014, with total capital returned totalling to \$11.8 million (2013: \$26.1 million).

MATTERS SUBSEQUENT TO THE END OF THE HALF-YEAR

There have been no matters or circumstances which have arisen since 30 June 2014 that have significantly affected, or may significantly affect:

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

ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

AIT is an entity of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the Directors' report and Half-Year Financial report. Amounts in the Directors' report and Half-Year Financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

DIRECTORS' REPORT (CONTINUED)

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 11.

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

A handwritten signature in black ink, appearing to read 'Dr. [unclear]', with a long horizontal flourish extending to the right.

Director
Sydney, 27 August 2014

Investment Manager's Report

Background

The investment portfolio of Alternative Investment Trust ("AIT") primarily consists of exposure to a basket of absolute return funds via a swap agreement with Macquarie Bank ("the Swap"). In January 2009, a unitholder vote determined that the fund should pursue an orderly wind up under a new Investment Manager, Laxey Partners (UK) Ltd ("Laxey") – formally appointed manager on 23 February 2009 – and a new Responsible Entity, The Trust Company (RE Services) Limited, part of the Perpetual Limited Group (ASX: PPT). Laxey is a part of Isle of Man based Laxey Partners Ltd. Laxey Partners Ltd was founded in 1998 as a globally active management company and manages a range of assets and funds for institutional investors. As part of the new mandate, the name of the fund was changed from Everest, Babcock & Brown Alternative Investment Trust to Alternative Investment Trust. In order to make distributions from investments redeemed within the Swap, AIT was required to repay the Swap related debt. This repayment was completed in August 2010, and AIT has since been free to make distributions to unitholders once sufficient cash has built up.

Trust Facts

(As at 30 June 2014)

- Gross Assets (GA): AUD 22m
- Net Assets (NA): AUD 21m
- Market Cap: AUD 16m
- Units in Issue: 131m
- NTA / unit: AUD 0.163
- Leverage Ratio (GA / NA): 1.01
- Debt outstanding: USD 0
- % of GA in 'Side Pockets': 61%

Capital Returns per unit:

- 1H2014 Returns: AUD 0.09
- Total Returns since Feb 2009: AUD 1.72

Distributions to Unitholders:

A total of two distributions were made in the first half of 2014. The first, for AUD 0.05 per unit was paid in February; the second for AUD 0.04 per unit was paid in May. In the first half of 2014 a total of AUD 11.8m was returned to unitholders. This brings the total distributions made to unitholders since the change of mandate to AUD 225m (or AUD 1.72 per unit) – representing approximately 168% of AIT's market value as at 31 January 2009 (or 77% of its unaudited net assets at that date).

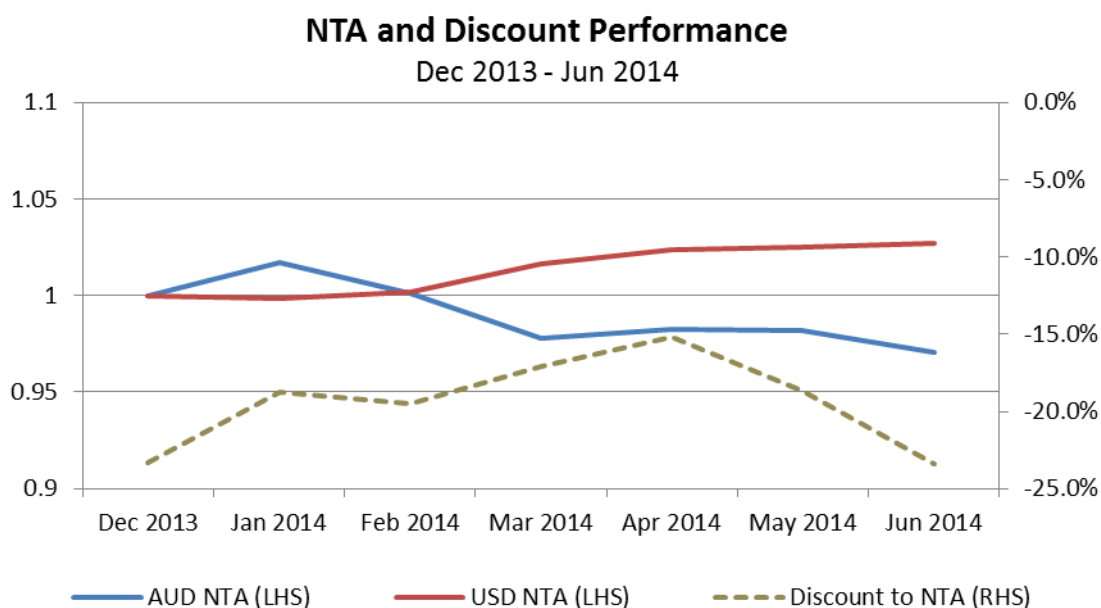
AIT made distributions in the 6 months under review using a combination of continued redemptions from funds and the receipt of final payment from ESL. AIT's underlying funds – the majority of which are now side pockets or liquidating investments – continued to gradually realise their underlying investments and return the proceeds to AIT. Distributions remain a priority for the fund and will continue to be made as soon as these future redemption proceeds allow. The liquidity of AIT is discussed below.

Fund Performance

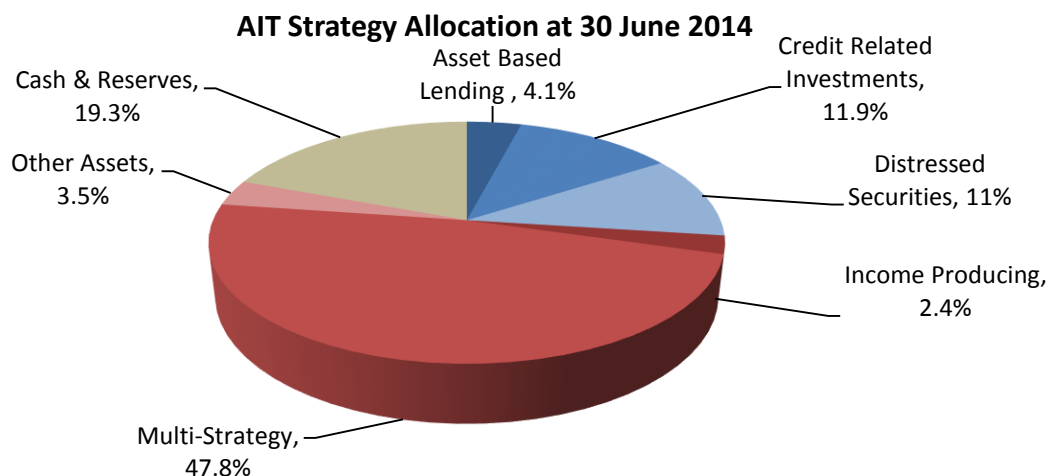
AIT's NTA fell from AUD 0.2608 on 31 December 2013 to AUD 0.1632 on 30 June 2014. Adjusting for the two returns of capital during the six months, AIT's NTA performance was -2.9% for 1H 2014. Over the six months, the AUD strengthened by 5.8% against the USD. As the majority of AIT's net assets are USD denominated, this had a negative effect on AIT's NTA – as can be seen from the performance comparison of NTA in USD and AUD terms.

At June end, AIT's net currency exposure was 81% to USD reporting funds, assets and liabilities, and 19% to AUD reporting funds, assets and liabilities. Note that on a 'look through' basis, AIT's exposure to both the USD and AUD may be overstated as there is no general policy amongst AIT's underlying managers to hedge currency exposures of their investments to their reporting currency.

The AUD and USD NTA performance (NTAs rebased to 1 at 31 December 2013, and adjusted for February and May 2014 returns of capital, unaudited NTAs used for January to June), together with the discount performance of AIT from 31 December 2013 to 30 June 2014 is given below. AIT's unit price to NTA discount remained between 15% and 25% for the first half of 2014. By way of comparison, AIT was trading at discounts of over 50% in late 2008 / early 2009.



Portfolio Review



Cash and Other Assets:

With the completion of debt repayment, AIT now has free use of its cash (less reserves). The above graph gives AIT's cash and reserves position as 19.3% of gross assets. 'Other Assets' largely consists of receivables; this is cash from redeemed funds that has yet to come through to AIT's accounts.

AIT's Top Holdings as at 30 June 2014:

FUND NAME	STRATEGY	% OF GROSS ASSETS
TPG-Axon Partners Offshore Ltd	Multi-Strategy	10.4%
Eton Park Overseas Fund Ltd	Multi-Strategy	8.7%
Fortress Partners Fund LP	Multi-Strategy	7.3%
Cerberus International Ltd	Distressed Securities	7.2%
Canyon Value Realization Fund	Multi-Strategy	6.5%
Marathon Special Opportunity Fund	Credit Related Investments	5.1%
Drawbridge Special Opportunities	Asset Based Lending	4.1%
Silver Point Capital Partnership LP	Distressed Securities	3.8%
Cheyne Special Situations Fund	Credit Related Investments	3.6%
GSO Special Situations Overseas	Credit Related Investments	3.2%
TOTAL		59.9%

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

Details of AIT's Top Holdings:

TPG-Axon (10.4% of Gross Assets): TPG is a multi-strategy fund. It has returned the full amount of non-side pocketed positions to AIT and the remaining exposure is to five separate side pocket investments including real estate related investments and an investment in an iron ore development company in Brazil. During the half year under review, returned approximately USD 0.3m to AIT.

Eton Park Overseas Fund (8.7% of Gross Assets): AIT no longer has exposure to Eton Park's main funds; the only exposure is to side pocket positions. A small amount of cash was paid to AIT in the period under review.

Fortress Partners (7.3% of Gross Assets): AIT's exposure here is to a broad range of side pocket type investments. During the period under review, Fortress returned approximately USD 0.1m to AIT.

Cerberus International (7.2% of Gross Assets): Cerberus predominantly makes investments in distressed securities, including those facing financial and operating difficulties and it has also made investments in secured debt, bank debt and mortgage related securities. Due to large volumes of redemption requests in 2008, Cerberus held back the majority of AIT's position as a liquidating investment, and AIT currently receives small payments on a regular basis. Cerberus returned approximately USD 0.3m to AIT during the period under review.

Canyon Value Realization Fund (6.5% of Gross Assets): This position consists of a number of side pocket type investments. The fund will officially begin winding down in June 2017 however AIT will continue to receive distributions as liquidity events appear in their portfolio. A small amount of cash was paid to AIT in the period under review.

Marathon Special Opportunity Fund (5.1% of Gross Assets): Redemption proceeds for the majority of Marathon Special Opportunity Fund were received at the beginning of 2011 and AIT is now solely exposed to a number of side pocket positions. A small amount of cash was paid to AIT in the period under review.

Drawbridge (4.1% of Gross Assets): An opportunistic diversified portfolio of investments primarily made in the United States, Western Europe and the Pacific region, focusing on asset-based transactions, loans and corporate securities. This fund has been in liquidation for some time and in 2013, the final portion of the main fund was distributed to AIT. AIT's remaining exposure is to a number of side pocket positions which will take longer to fully liquidate. During the first half of 2013, AIT accepted an offer at 100% of NAV from BNP Paribas for Drawbridge positions held with them. AIT still has exposure to one Drawbridge position – held with Macquarie – from which AIT received USD 0.1m in redemption proceeds during the period under review.

Silver Point Capital (3.8% of Gross Assets): AIT's exposure to Silver Point Capital is majority held in 4 investments. A small amount of cash was paid to AIT in the period under review.

Cheyne Special Situations Fund (3.6% of Gross Assets): Cheyne is in liquidation; its investments are spread across a variety of different sectors including property, automotive and financial sectors. A small amount of cash was paid to AIT in the period under review.

GSO Special Situations (3.2% of Gross Assets): AIT has holdings across three of GSO's leveraged bank debt vehicles, they have returned USD approximately USD 0.3m to AIT during the first half of 2014.

Further Updates:

In February 2014 AIT received the final redemption payment from **ESL Investments**.

Och-Ziff Overseas Fund II, which currently makes up 1.91% of Gross Assets, returned approximately USD 1.1m to AIT during the period under review. As a result it is no longer one of Top 10 holdings by percentage of Gross Assets.

Following the settlements previously disclosed, one indemnity claim against **EBBIF** from Redleaf Capital Limited ("Redleaf", formerly known as Everest Capital Limited) remains outstanding and continues to be reviewed by the current trustee of EBBIF, One Managed Investment Funds Limited ("One"). One has a fiduciary obligation toward Redleaf in relation to Redleaf's indemnity rights (that it has in relation to liabilities properly incurred by it arising out of events that took place during the period in which it was trustee of EBBIF), which if they do arise, rank ahead of unitholders' claims. Laxey keep in regular contact with One to monitor the situation.

The remaining claim is limited to the assets of EBBIF and is not against AIT itself. As such, the impact is limited by the assets of EBBIF – which accounts for 2.4% of AIT's net assets. The claim is likely to impact on the time taken by One to liquidate EBBIF.

Liquidity Profile and Side Pocket Positions

AIT is debt free. As mentioned above, distributions were made from sales and redemption proceeds in February and May. With all of the fixed redemption date funds having redeemed, AIT is solely exposed to funds undergoing full or significant liquidation and side pocket positions. This means that redemption proceeds follow indicative rather than firm timeframes and are dependent on the underlying managers realising individual illiquid investments.

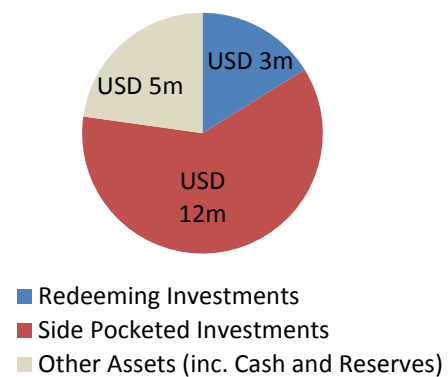
Liquidating funds are those which, because of large volumes of redemption requests, were forced to close, and realise assets, distributing proceeds to investors as they become available. This dependence on the realisation of assets such as these makes distributions less certain. Laxey classifies these assets into those which make regular (but not guaranteed) distributions – usually on a quarterly basis – and those which only make ad hoc distributions as cash becomes available to them.

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

specific liquidity dates for positions unless they are very close to realisation. AIT’s exposure to side pockets has increased during AIT’s realisation process as they have been slower to liquidate than the main funds, and because they have risen in value more substantially than the main funds following severe writedowns during 2008 and 2009. Given that these side pocket assets cannot be easily liquidated, that there is often some doubt as to the exact date of their realisation, and that they may not be redeemed at the request of the investor, Laxey treats these investments separately to the main funds in determining the liquidity profile of AIT. As with all fund positions, Laxey monitor and speak to the underlying investment funds on a regular basis in order to better understand the portfolio’s risk and its liquidity profile.

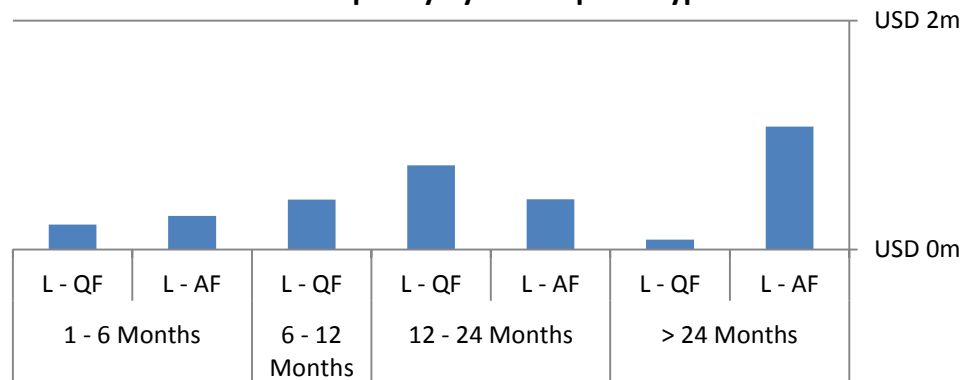
AIT’s current side pocket exposure is 61% of gross assets by value. Given the nature of their liquidity they are classed separately to the main funds for liquidity purposes. The opposite chart illustrates this division.

Breakdown by Gross Assets



The remainder of AIT’s non-cash exposure is broken down in the following graph:

Fund Liquidity by Redemption Type



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

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

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

5% of AIT’s gross assets (versus 12% at December 2013) are classed as liquidating with an ad hoc flow of distributions - bringing AIT’s total exposure to assets with difficult to determine liquidity to 66% of gross assets.

This leaves 11% of current gross assets exposed to funds with a – relatively – predictable liquidity timetable.

Note none of these figures take account for possible early exits or delays to managers' expectations; there is a chance that some positions may be redeemed at an earlier (or later) than expected date.

Outlook

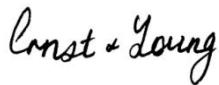
Distributions remain a priority for the AIT; further announcements will be made as soon as redemption proceeds allow.



Signed by Colin Kingsnorth
Laxey Partners (UK) Limited

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

In relation to our review of the financial report of Alternative Investment Trust for the half-year ended 30 June 2014, 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



Rita Da Silva
Partner
27 August 2014

Alternative Investment Trust
Statement of comprehensive income
For the half-year ended 30 June 2014

STATEMENT OF COMPREHENSIVE INCOME

		Half-year ended	
	Notes	30 June 2014 \$'000	30 June 2013 \$'000
Investment income			
Net (losses)/gains on financial instruments held at fair value through profit or loss	2	(623)	6,174
Interest income		56	61
Other foreign exchange gains		1	24
Total investment (loss)/income		(566)	6,259
Expenses			
Responsible Entity fees	9	42	42
Laxey Management fees	9	96	460
Other operating expenses	3	294	352
Total operating expenses		432	854
Operating (loss)/profit attributable to unitholders		(998)	5,405
(Loss)/income attributable to:			
Unitholders		(998)	5,405
Total comprehensive income		–	–
		Cents	Cents
(Loss)/earnings per unit for (loss)/profit from continuing operations			
Basic and diluted (loss)/earnings per unit	8	(0.76)	4.14

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

STATEMENT OF FINANCIAL POSITION

		As at	
	Notes	30 June 2014 \$'000	31 December 2013 \$'000
Assets			
Cash and cash equivalents		3,194	4,857
Receivables	4	27	30
Financial assets held at fair value through profit or loss	5	18,316	29,416
Total assets		21,537	34,303
Liabilities			
Payables	6	212	218
Total liabilities (excluding net assets attributable to unitholders)		212	218
Net assets attributable to unitholders		21,325	34,085
Represented by:			
Units on issue		398,188	409,950
Undistributed losses to unitholders		(376,863)	(375,865)
		21,325	34,085

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

Alternative Investment Trust
Statement of changes in net assets attributable to unitholders
For the half-year ended 30 June 2014

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	Units on issue \$'000	Undistributed income/(loss) \$'000	Total \$'000
At 1 January 2014	409,950	(375,865)	34,085
Return of capital	(11,762)	–	(11,762)
Change in net assets attributable to unitholders	–	(998)	(998)
As at 30 June 2014	<u>398,188</u>	<u>(376,863)</u>	<u>21,325</u>
	Units on issue \$'000	Undistributed income/(loss) \$'000	Total \$'000
At 1 January 2013	453,078	(382,319)	70,759
Return of capital	(26,138)	–	(26,138)
Change in net assets attributable to unitholders	–	5,405	5,405
As at 30 June 2013	<u>426,940</u>	<u>(376,914)</u>	<u>50,026</u>

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

Alternative Investment Trust
Statement of cash flows
For the half-year ended 30 June 2014

STATEMENT OF CASH FLOWS

	Half-year ended	
	30 June	30 June
	2014	2013
	\$'000	\$'000
<i>Cash flows from operating activities</i>		
Interest received	56	61
Other income received	9	12
Payment of Management and Responsible Entity fees	(137)	(471)
Other expenses paid	(302)	(530)
GST (paid)/received	(6)	7
Net cash used in operating activities	(380)	(921)
<i>Cash flows from investing activities</i>		
Proceeds from sale of investments	10,478	26,044
Net cash provided by investing activities	10,478	26,044
<i>Cash flows from financing activities</i>		
Cash outflow through returns of capital	(11,762)	(26,138)
Net cash used in financing activities	(11,762)	(26,138)
Net decrease in cash and cash equivalents	(1,664)	(1,015)
Cash and cash equivalents at beginning of the half-year	4,857	6,319
Effects of foreign currency exchange rate changes on cash and cash equivalents	1	24
Cash and cash equivalents at the end of the half-year	3,194	5,328

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

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

Alternative Investment Trust (the “Trust” or “AIT”) is an Australian registered managed investment scheme constituted on 7 April 2005. AIT is listed on the Australian Securities Exchange (ASX code: AIQ).

The Responsible Entity of AIT is The Trust Company (RE Services) Limited (the “Responsible Entity”). The registered office of The Trust Company (RE Services) Limited is Level 15, 20 Bond Street, Sydney, NSW 2000.

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

The financial statements were authorised for issue by the Directors on 27 August 2014.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year and the corresponding interim reporting period, other than as noted below.

(a) Basis of preparation

This interim financial report for the half-year ended 30 June 2014 has been prepared in accordance with accounting standard AASB 134 Interim Financial Reporting and the *Corporations Act 2001*. The financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities held at fair value through profit or loss that have been measured at fair value. This is consistent with the intention of the Investment Manager to liquidate AIT in an orderly basis.

The half-year financial report does not include all the notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of AIT as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the Annual Report released to unitholders on 26 February 2014 and considered together with any public announcements made by the Responsible Entity during the half-year ended 30 June 2014 and up to the date of signing of these financial statements.

The half-year financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to AIT under ASIC Class Order 98/100.

Compliance with International Financial Reporting Standards (IFRS)

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

(b) New accounting standards and interpretations

Accounting standards and interpretations that have been issued or amended but are not yet effective have not been adopted by the Trust for the interim reporting period ended 30 June 2014:

AASB 9 ‘Financial Instruments’, AASB 2009-11 ‘Amendments to Australian Accounting Standards arising from AASB 9’ – AASB 9 introduces new requirements for classifying and measuring financial assets including debt instruments and equity instruments. The revised accounting standard is applicable for accounting periods beginning on or after 1 January 2018. The Responsible Entity does not expect this will have a significant impact on the Trust’s financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) New accounting standards and interpretations (continued)

New standards and interpretations mandatory for annual reporting periods beginning 1 January 2014 though not impacting the Trust are not disclosed in these financial statements.

New standards and interpretations mandatory for the annual reporting periods beginning 1 January 2014 impacting the Trust have been adopted and reflected in the financial statements.

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

	Half-year ended	
	30 June 2014 \$'000	30 June 2013 \$'000
Financial instruments		
Fair value (losses)/gains on Total Return Swap	(617)	6,250
Net losses on direct investments designated as fair value through profit or loss	(3)	(3)
Net foreign exchange losses on investments designated as fair value through profit or loss	(3)	(73)
Total net (losses)/gains on financial instruments held at fair value through profit or loss	(623)	6,174

3. OTHER OPERATING EXPENSES

	Half-year ended	
	30 June 2014 \$'000	30 June 2013 \$'000
Other operating expenses		
Professional fees	84	109
Fund administration and custody expenses	129	138
Other general and administrative expenses	44	65
Auditor's remuneration	37	40
Total other operating expenses	294	352

4. RECEIVABLES

	As at	
	30 June 2014 \$'000	31 December 2013 \$'000
GST recoverable	18	12
Other receivables	9	18
Total receivables	27	30

No loss has been recognised in respect of receivables during the half-year ended 30 June 2014 (31 December 2013: nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	As at	
	30 June	31 December
	2014	2013
	\$'000	\$'000
Financial assets		
Underlying Investment Portfolio	17,795	28,892
Direct Investment in Portfolio Fund (EBBIF New Class C)	521	524
Total financial assets held at fair value through profit or loss	18,316	29,416

The Underlying Investment Portfolio represents AIT's exposure to the Total Return Swap. Fair value of the swap is calculated with reference to the fair value of the absolute return funds held within the Swap. The fair value of these assets is based on the net asset value information received from the underlying fund's administrators, and, where appropriate, estimated performance data from the underlying fund managers. These fair values are reconciled monthly by AIT's third party administrator and any changes in fair value reviewed for reasonableness by Laxey. Fair values are also checked against the official swap valuation provided by Macquarie Bank Limited. In addition, the Underlying Investment Portfolio also includes cash and cash equivalents held within the Swap. This includes cash in hand, unsettled trades, accrued interest on cash balances and any relevant fees in relation to the administration and custody of the Swap and its underlying portfolio. These cash and cash equivalents are carried at amortised cost. Neither Laxey nor the Responsible Entity has direct input into the valuation methodologies applied by the underlying investment administrators in determining net asset values. However, Laxey on behalf of the Responsible Entity is in regular contact with both the underlying investment administrators and investment managers and enquires where there are unexpected valuation changes.

Direct Investment in Portfolio Fund (EBBIF New Class C) is fair valued based on the administrator released net asset value information, which is subsequently confirmed by the Investment Manager, confirming the holding and closing value as at the reporting date. All direct investments are carried at their net asset value and no estimates/judgements are made by the Investment Manager on valuation.

The following fair value hierarchy table presents information about AIT's financial assets measured at fair value on a recurring basis as at 30 June 2014.

	As at			
	30 June 2014			
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Underlying Investment Portfolio	–	–	17,795	17,795
Direct Investment in Portfolio Fund (EBBIF New Class C)	–	–	521	521
Total financial assets held at fair value through profit or loss	–	–	18,316	18,316

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The following fair value hierarchy table presents information about AIT's financial assets measured at fair value on a recurring basis as at 31 December 2013.

	As at 31 December 2013			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Financial assets				
Underlying Investment Portfolio	–	–	28,892	28,892
Direct Investment in Portfolio Fund (EBBIF New Class C)	–	–	524	524
Total financial assets held at fair value through profit or loss	–	–	29,416	29,416

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period.

	Period	
	30 June 2014 \$'000	31 December 2013 \$'000
Opening balance at 1 January	29,416	64,883
Net realised gain/(loss)	474	(3,365)
Net change in unrealised (loss)/gain	(1,096)	11,027
Sales	(10,478)	(43,129)
Closing balance at 30 June/31 December	18,316	29,416

In addition to the financial assets held at fair value through profit or loss disclosed above, AIT holds 365 Class A2 Notes in a Babcock and Brown CDO Fund, which are currently valued at \$nil (31 December 2013: \$nil). The Investment Manager does not expect AIT will receive any proceeds from the CDO and on this basis nil value has been adopted in these financial statements.

There were no transfers between levels during the period (2013: \$nil).

All financial assets at fair value through profit or loss are not valued based on observable market data and are subject to liquidity restrictions and as such they have been determined to be Level 3 assets. The valuation of the Underlying Investment Portfolio and Direct Investment in Portfolio Fund is based on the net asset value information received from the underlying funds' administrators, and, where appropriate, estimated performance data from the underlying fund managers. The values have not been adjusted for liquidity as the Investment Manager is in regular contact with underlying investment managers and deem the current values as reasonable.

The following sensitivity analysis of AIT's operating profit and net assets attributable to unitholders shows the effect a reasonably possible movement in the value of the Underlying Investment Portfolio and Direct Investment in Portfolio Fund would have on the Trust's operating profit/net assets attributable to unitholders. If the value of Underlying Investment Portfolio and Direct Investment in Portfolio Fund at 30 June 2014 had increased by 5% with all other variables held constant, this would have increased net assets attributable to unitholders by approximately \$915,802 (2013: 5%; \$2,250,674). Conversely, if the value of Underlying Investment Portfolio and Direct Investment in Portfolio Fund at 30 June 2014 had decreased by 5% with all other variables held constant, this would have decreased net assets attributable to unitholders by approximately \$915,802 (2013: 5%; \$2,250,674).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

EBBIF and EARF update

As disclosed in the annual financial report for the year ended 31 December 2013, in regards to the indemnity claim against Everest Absolute Return Fund (“EARF”), a fund in the Underlying Investment Portfolio, from Redleaf Capital Limited (“Redleaf”), formerly known as “Everest Capital Limited”, the current trustee of EARF, One Managed Investment Funds Limited (“One”) has advised that a settlement has been reached. \$0.4m was paid to Redleaf and Redleaf has confirmed that it has no further claim against EARF arising from this litigation and is not aware of any other matter that might give rise to another claim.

One of Redleaf’s indemnity claims against Everest Babcock & Brown Income Fund (“EBBIF”) has also been settled but a further claim remains outstanding and continues to be reviewed by One. One has a fiduciary obligation toward Redleaf in relation to Redleaf’s indemnity rights (that it has in relation to liabilities properly incurred by it arising out of events that took place during the period in which it was trustee of the funds), which if they do arise, rank ahead of unitholders’ claims. As at 30 June 2014, the negotiation process between Redleaf and One is still ongoing. Laxey on behalf of the Responsible Entity keeps in regular contact with One to monitor the progress of this claim.

This claim is limited to the assets of EBBIF and is not against AIT itself. As such, the impact of the claims made is limited to the assets of EBBIF – which account for 2.44% of AIT’s net assets as at 30 June 2014. The outstanding claim is likely to impact on the time taken by One to liquidate EBBIF.

6. PAYABLES

	As at	
	30 June	31 December
	2014	2013
	\$'000	\$'000
Amounts owing to Responsible Entity	7	7
Management fees	59	58
Fund administration and custody expenses payable	52	27
Other payables	94	126
Total payables	212	218

7. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

	Half-year ended			
	30 June	30 June	30 June	30 June
	2014	2013	2014	2013
	No. of units	No. of units	\$'000	\$'000
Opening balance	130,692,470	130,692,470	34,085	70,759
Return of capital	–	–	(11,762)	(26,138)
Change in net assets attributable to unitholders	–	–	(998)	5,405
Closing balance	130,692,470	130,692,470	21,325	50,026

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. EARNINGS PER UNIT

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

	Half-year ended	
	30 June	30 June
	2014	2013
(Loss)/profit attributable to unitholders (\$'000)	(998)	5,405
Weighted average number of units in issue ('000)	130,692	130,692
Basic and diluted (loss)/earnings per unit in cents	(0.76)	4.14

9. RELATED PARTY TRANSACTIONS

The Responsible Entity of Alternative Investment Trust is The Trust Company (RE Services) Limited.

Responsible Entity's fees

The Trust Company (RE Services) Limited, charges 0.1% per annum (excluding GST) of average gross assets, subject to a minimum of \$80,000 (excluding GST) per annum. For the half-year ended 30 June 2014, The Trust Company (RE Services) Limited received \$41,800 (30 June 2013: \$41,800) which includes non-refundable GST, for services rendered to AIT.

Directors of the Responsible Entity do not receive any fees directly from AIT.

Investment Manager's fees

As advised to the ASX on 26 June 2013, with effect from 1 January 2014, the management fee arrangements with Laxey have been renegotiated. Laxey receives fees equal to the lower of AUD 200,000 or 0.75% of the average value of gross assets of AIT with no distribution fees. These revised fee arrangements will continue to be subject to both the overall fee cap of 1.25% per annum of the average value of gross assets of AIT and the Responsible Entity fee of AUD 80,000.

	Half-year ended	
	30 June	30 June
	2014	2013
	\$	\$
Fees paid to the Responsible Entity	41,800	41,800
Fees paid to Laxey	96,145	459,853
Custody fees paid to The Trust Company Limited	15,000	14,850
	<u>152,945</u>	<u>516,503</u>

As of 30 June 2014, AIT had a total of \$81,498 (31 December 2013: \$73,163) payable to the related parties.

10. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

There are no commitments or contingencies as at 30 June 2014 (31 December 2013: nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. SEGMENT INFORMATION

AIT engages in one business activity from which it earns revenues, being investment returns, and its results are analysed as a whole by the chief operating decision maker, Laxey. As such, AIT has only one reportable operating segment.

12. SUBSEQUENT EVENTS

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

DIRECTORS' DECLARATION

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

- (a) the financial statements and notes, set out on pages 12 to 22, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of AIT as at 30 June 2014 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standards, other mandatory professional reporting requirements and the Corporations Regulations 2001.
- (b) there are reasonable grounds to believe that AIT will be able to pay its debts as and when they become due and payable; and
- (c) the financial statements and notes also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as disclosed in Note 1.

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



Director
Sydney, 27 August 2014

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Alternative Investment Trust (the 'Trust'), which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Responsible Entity's responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Trust's financial position as at 30 June 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Alternative Investment Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.


Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is attached to the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Alternative Investment Trust is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Trust's financial position as at 30 June 2014 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Rita Da Silva
Partner
Sydney
27 August 2014