

APPENDIX 4E

Annual Report  
For the year ended 31 December 2014

<b>Name of entity: Alternative Investment Trust ("AIT")</b>
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1 **REPORTING PERIOD AND PREVIOUS CORRESPONDING PERIOD**

<b>Current Reporting Period:</b>	<b>12 months to 31 December 2014</b>
Previous Corresponding Period:	12 months to 31 December 2013

2 **RESULTS FOR ANNOUNCEMENT TO THE MARKET**

	<b>2014 (\$000)</b>	<b>2013 (\$000)</b>
<b>2.1</b> Revenue from ordinary activities	Down 78.50% to 1,666	7,738
<b>2.2</b> Profit (loss) from ordinary activities after tax attributable to unitholders*	Down 88.30% to 755	6,454
<b>2.3</b> Net profit (loss) for the period attributable to unitholders *	Down 88.30% to 755	6,454

\*excludes loss attributable to minority interest

	<b>2014</b>		<b>2013</b>	
	Amount per security	Tax deferred	Amount per security	Tax deferred
<b>2.4</b> Distributions:	-	-	-	-
Final distribution	-	-	-	-
Interim distribution	-	-	-	-

2.5 Record date for determining entitlements to the final 2014 distribution - 31 December 2014  
No distribution was declared or paid for the year ended 31 December 2014 (31 December 2013: \$nil)

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

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

No distribution was declared or paid for the year ended 31 December 2014 (31 December 2013: \$nil)

8 **DETAILS OF ANY DIVIDEND OR DISTRIBUTION REINVESTMENT PLANS IN OPERATION**

Not applicable

9 **NET TANGIBLE ASSETS PER SECURITY**

NTA per security as at 31 December 2014 (Ex distribution)	\$0.18
NTA per security as at 31 December 2013 (Ex distribution)	\$0.26

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

AIT did not gain or lose control over any entities during the year ended 31 December 2014

11 **DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES**

Not applicable

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

Refer to the annual financial report and notes attached thereto

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

Not applicable

14 **COMMENTARY ON RESULTS**

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

Additional Appendix 4E disclosure requirements can be found in the notes to the financial report for the year ended 31 December 2014.

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

# **Alternative Investment Trust**

ARSN 112 129 218

## **Financial Report for the Year Ended 31 December 2014**

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## **DIRECTORS' REPORT**

The Directors of The Trust Company (RE Services) Limited (the "Responsible Entity"), the Responsible Entity of Alternative Investment Trust ("AIT"), present their report together with the financial report of AIT for the year ended 31 December 2014.

### **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 12, 123 Pitt Street, Sydney, NSW 2000. The Responsible Entity is a wholly owned subsidiary in the Perpetual Limited Group (ASX: PPT).

### **Investment Manager**

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

### **Directors of the Responsible Entity**

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

Andrew Cannane

Christopher Green (appointed as a Director on 07 March 2014)

Gillian Larkins (appointed as a Director on 07 March 2014)

David Grbin (resigned as a Director on 07 March 2014)

Rupert Smoker (resigned as a Director on 07 March 2014)

Glenn Foster (appointed as an Alternate Director for Gillian Larkins on 07 March 2014)

Anna O'Sullivan (appointed as an Alternate Director for each of Andrew Cannane and Christopher Green on 07 March 2014)

Joanne Hawkins (appointed as an Alternate Director for Gillian Larkins on 07 March 2014)

### **PRINCIPAL ACTIVITIES**

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

### **SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

During the year ended 31 December 2014, the Responsible Entity made capital returns totalling \$11.8 million (2013: \$43.1 million). Since the appointment of Laxey and the Responsible Entity, capital of \$224.9 million has been returned to unitholders as at 31 December 2014 (2013: \$213.1 million).

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

**DIRECTORS' REPORT (CONTINUED)**

**OPERATING AND FINANCIAL REVIEW**

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

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

	<b>Year ended</b>	
	<b>31 December 2014 \$'000</b>	31 December 2013 \$'000
Change in net assets attributable to unitholders	755	6,454

**VALUE OF ASSETS AND UNITS ISSUED**

The total value of AIT's assets as at year end is \$23,339,000 (2013: \$34,303,000). The total number of units issued as at 31 December 2014 is 130,692,470 (2013: 130,692,470).

For a more detailed review of AIT's performance refer to the Investment Manager's Report on page 12.

**DISTRIBUTION/RETURN OF CAPITAL**

There were two returns of capital during 2014, with total capital returned during the year of \$11.8 million (2013: \$43.1 million).

**RISK MANAGEMENT**

The Investment Portfolio is in "run-off" and this process has been managed so as to provide the maximum amount of cash to unitholders over as short a time period as is deemed prudent and within the context of firstly having repaid the leverage facility provided by Macquarie Bank Limited. As such, the Investment Manager together with Macquarie Bank Limited monitors the liquidity profile and redemption terms of each investment. All holdings that may be redeemed are in the process of being redeemed, with some positions subject to lock ups, illiquid side pocket arrangements (a type of account used to separate illiquid assets from other more liquid investments) or a queuing process. Once an investment enters a side pocket account, only the present unitholders in the fund will be entitled to a share of it. Future investors will not receive a share of the proceeds in the event that the asset's returns are realised. Full commentary on this process may be found in the Investment Manager's Report on page 12.

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

(a) Credit risk

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

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

**DIRECTORS' REPORT (CONTINUED)**

**RISK MANAGEMENT (CONTINUED)**

(b) Liquidity and cash flow risk

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

(c) Market price risk

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

(d) Foreign exchange risk

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

(e) Interest rate risk

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

**INVESTMENT AND LEVERAGE GUIDELINES**

AIT is no longer permitted to:

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

**DIRECTORS' REPORT (CONTINUED)**

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

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

*Distributions*

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

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

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

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

**INTERESTS OF DIRECTORS OF THE RESPONSIBLE ENTITY**

The Directors of the Responsible Entity did not hold any interest in AIT at 31 December 2014 (2013: no interest held).

**INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS**

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

**RESPONSIBLE ENTITY/INVESTMENT MANAGER TRANSACTIONS**

As at 31 December 2014, the Responsible Entity had no interest in AIT (2013: nil).

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

	<b>2014</b>	2013
	\$	\$
Responsible Entity fees	83,600	83,600
Investment Manager fees	189,697	540,222



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**DIRECTORS' REPORT (CONTINUED)**

**RESPONSIBLE ENTITY/INVESTMENT MANAGER FEES**

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

The Investment Manager receives fees equal to the lower of AUD 200,000 or 0.75% of the average value of gross assets of AIT with no distribution fees. These fee arrangements are subject to both the overall fee cap of 1.25% per annum of the average value of gross assets of AIT and the Responsible Entity fee of AUD 80,000. The Responsible Entity Fees and Investment Manager's Fees in total are not to exceed 1.25% per annum of average gross assets.

**MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR**

There has not been any matter or circumstance that has arisen since 31 December 2014 that has significantly affected or may significantly affect:

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

**ENVIRONMENTAL REGULATION**

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

**NON-AUDIT SERVICES**

Ernst and Young continues as AIT's Auditor.

There were no non-audit services (other than the compliance audit for AIT) performed by the auditor in the current financial year. The auditor received fees of \$11,000 for the compliance audit in the current financial year (2013: \$11,000).

**ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS**

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

**AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 19.

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



Andrew Cannane  
Director  
Sydney, 25 February 2015

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## **CORPORATE GOVERNANCE – RESPONSIBLE ENTITY**

### **Background**

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

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

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

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

These specific principles are outlined below:

#### **1. Investment mandate**

The Responsible Entity is vigilant in ensuring that the Trust’s investments, including its assets and liabilities, are in accordance with the Trust’s investment mandate.

#### **2. Debts and solvency**

The Responsible Entity is vigilant in monitoring the financial position of the Trust, in seeking to ensure that the Trust remains solvent and able to pay its debts as they fall due and that obligations are only entered into in accordance with the Trust documents.

#### **3. Good disclosure**

The Responsible Entity is vigilant in ensuring full, frank and timely disclosure of the Trust’s affairs to relevant stakeholders including the Trust’s unitholders. This includes financial reporting, continuous disclosure, offer documents and other material disclosures.

#### **4. Related party**

The Responsible Entity is vigilant in scrutinising any related party transactions to ensure they are allowed only on arm’s length terms and in the best interests of the Trust’s unitholders.

#### **5. Conflict management**

The Responsible Entity is vigilant in ensuring that any actual or potential conflicts in connection with the Trust are appropriately and transparently managed.

#### **6. Fraud mitigation**

The Responsible Entity ensures that it operates the Trust in ways that are designed to mitigate the risk of fraud.

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**CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)**

**Background (continued)**

**7. Service providers**

The Responsible Entity engages and acts in alliance with external service providers as part of operating the Scheme in the best interests of unitholders. This includes appropriate selection, engagement, management and monitoring processes.

**8. Safe custody**

The Responsible Entity ensures that the Trust's assets are kept in safe and segregated custody.

**9. Effective administration**

The Responsible Entity ensures that the Trust's affairs are administered effectively and efficiently. This includes appropriate controls, systems, processes and record-keeping.

**10. Governance, risk and compliance management**

The Responsible Entity ensures that the Trust is operated in accordance with appropriate governance, risk and compliance management frameworks.

**11. Organisational competence**

The Responsible Entity's Compliance Committee, Directors, management, staff and service providers are comprised of professionals who hold and maintain appropriate qualifications and experience to discharge their responsibilities to the highest standards of excellence.

**12. Financial capability**

The Responsible Entity meets and maintains the adequacy of its capital, liquidity, insurance and other requirements in order to discharge its obligations under its AFS Licence in relation to the Trust.

**13. Unitholders' feedback**

The Responsible Entity respects and supports the rights of the Trust's unitholders to question the Responsible Entity through appropriate complaints handling processes and/or unitholders' meetings.

**Corporate governance**

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

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

The Responsible Entity addresses each of the Principles below in relation to the Schemes, including the Trust, for the year ended 31 December 2014. This corporate governance statement is current as at the date of the Trust's financial report.

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**CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)**

**Principle 1 – Lay solid foundations for management and oversight**

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

The role of the Responsible Entity's management is to manage the business of the Responsible Entity in operating the Schemes. The RE Board delegates to management all matters not reserved to the RE Board, including the day-to-day management of the Responsible Entity and the operation of the Schemes. To assist the RE Board in carrying out its functions it has regard to the Code of Conduct developed by Perpetual to guide the Directors, management and staff in the performance of their roles.

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

**Principle 2 – Structure the board to add value**

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

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

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

The nomination committee functions have traditionally been carried out by the RE Board. The RE Board makes an assessment in relation to the appointment of new directors and in relation to itself, and ensures that it complies with the Responsible Entity's constitution.

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**CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)**

**Principle 2 – Structure the board to add value (continued)**

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

**Principle 3 – Promote ethical and responsible decision-making**

The Responsible Entity has a Code of Conduct and espoused Core Values within which it carries on its business and deals with its stakeholders. These apply to all directors and employees of Perpetual, and the Responsible Entity. The Code of Conduct and Core Values supports all aspects of the way the Responsible Entity conducts its business and is embedded into Perpetual's performance management process.

The Perpetual's Diversity Policy recognises the contribution of people with differences in background, experiences and perspectives. The policy encompasses but is not limited to gender, age, ethnicity and cultural background. Perpetual's Board has established a measurable objective related to gender diversity to achieve 38% representation of women in senior management roles by 2015.

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

**Principle 4 – Safeguard integrity in financial reporting**

The Responsible Entity has a Compliance Committee. The Compliance Committee is comprised of three members. The members of the Compliance Committee are John Richardson, Michelene Collopy and Virginia Malley. The Compliance Committee meets at least quarterly. The Compliance Committee may have such additional meetings as the Chairman may decide in order to fulfil its role. The Compliance Committee Charter sets out its role and responsibilities. The Compliance Committee reports both to Perpetual's Audit Risk and Compliance Committee (**ARCC**) and the board of the Responsible Entity after each meeting under its charter.

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

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

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**CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)**

**Principle 5 – Make timely and balanced disclosure**

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

**Principle 6 – Respect the rights of unitholders**

The Responsible Entity is committed to providing both unitholders and the market with timely information so that the market is continuously and sufficiently informed of all market sensitive information in relation to each of the Schemes. In addition to the continuous disclosure obligations, the Responsible Entity receives and responds to formal and informal communications from unitholders and convenes formal and informal meetings of unitholders as requested or required. The Responsible Entity has an active program for effective communication with the unitholders and other stakeholders in relation to the Schemes.

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

**Principle 7 – Recognise and manage risk**

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

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

Perpetual has a Risk Management Framework in place, which is supported by a Risk Appetite Statement. The framework includes policies and procedures to identify and address material financial and non-financial risks. The Perpetual Board and ARCC are responsible for overseeing compliance with the risk management program and its continuous evolution. Perpetual also historically maintained an independent 'internal' audit function which reported directly to Perpetual's ARCC and Perpetual's Board if necessary.

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

**CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)**

**Principle 8 – Remunerate fairly and responsibly**

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

Perpetual has remuneration policies in place to maintain and attract talented and motivated directors and employees. The policies are designed to improve the performance of Perpetual.

# 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 Perpetual Limited. Since that date, adding back the AUD 1.72 per unit or AUD 225m of distributions paid, AIT's share price has risen by 323% (23 February 2009 to 31 December 2014). On the same basis the NTA has increased by 102%. 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.

AIT's total expenses for the period under review decreased by 3.5% from AUD 0.66m in FY2013 to AUD 0.63m in FY2014. Laxey's Investment Management Fee for FY2014 decreased from AUD 0.54m in FY2013 to AUD 0.19m in FY2014, which represents a reduction of 65%. This is due to the change in the Management Fee Arrangements made on 26 June 2013 that Laxey will receive fees equal to the lower of AUD 0.2m or 0.75% of the average value of GA of AIT per annum. Total fees for FY2014 are down 29% over FY2013 from AUD 1.3m to AUD 0.9m, the majority of this decrease can be attributed to the reduction in Laxey's IM fee.

## Distributions to Unitholders:

A total of two distributions were made in 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 2014 a total of AUD 11.8m was returned to unitholders.

## Trust Facts

(As at 31 December 2014)

• Gross Assets (GA):	AUD 23m
• Net Assets (NA):	AUD 23m
• Market Cap:	AUD 19m
• Units in Issue:	131m
• NTA / unit:	AUD 0.176
• Leverage Ratio (GA / NA):	1.01
• Debt outstanding:	USD 0
• % of GA in 'Side Pockets'	56%

### Capital Returns per unit:

• FY2014 Returns:	AUD 0.09
• Total Returns since Feb 2009:	AUD 1.72



This brings the total distributions made to unitholders since the change of mandate to AUD 225m (or AUD 1.72 per unit) – representing approximately 172% of AIT’s market value as at 31 January 2009 (or 77% of its unaudited net assets at that date).

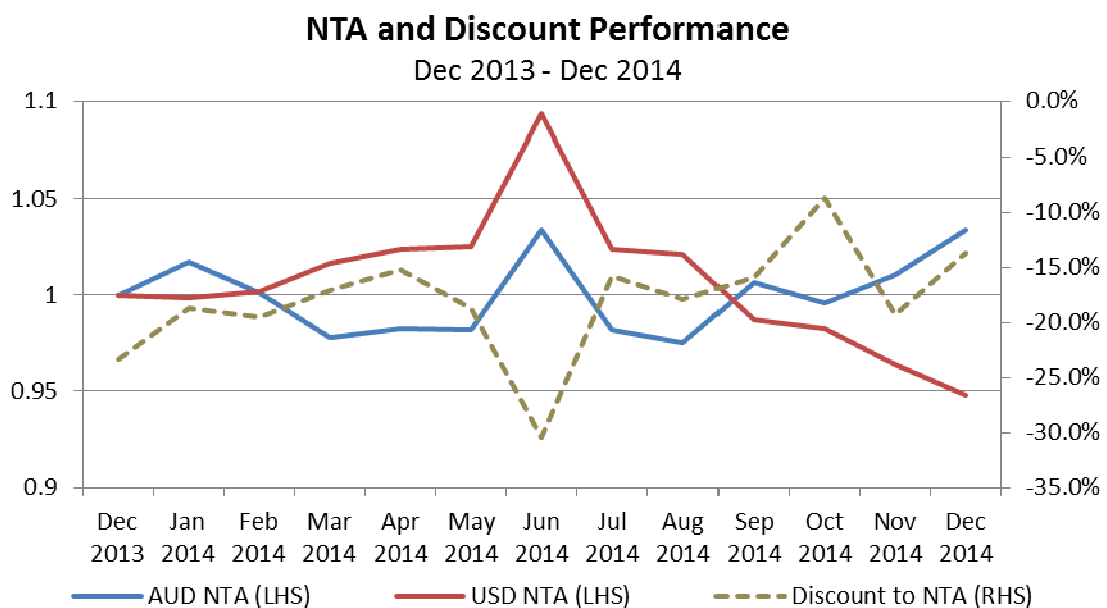
AIT made distributions in the twelve months under review using a combination of continued redemptions from funds and the receipt of final payment from ESL Limited. AIT’s underlying funds – the majority of which are now side pockets or liquidating investments – continued to gradually realise their underlying 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**

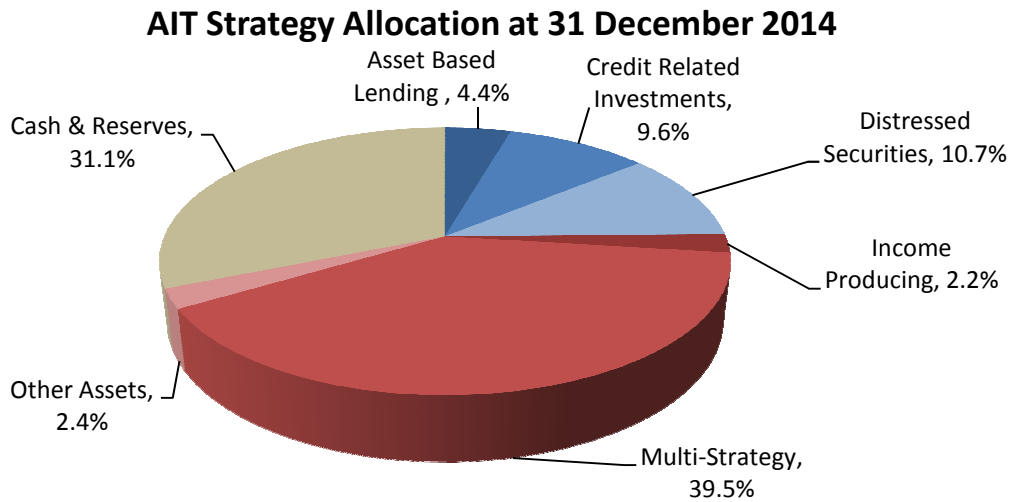
Over the period under review, adding back any distributions paid (AUD 0.09 per unit), AIT’s NTA rose by 3.4%. (Allowing for the two distributions made in 2014, the NTA decreased by 32%). Over the twelve months, the AUD weakened by -8.2% against the USD. As the majority of AIT’s net assets are USD denominated, this had a positive effect on AIT’s NTA – as can be seen from the performance comparison of NTA in USD and AUD terms.

At December end, AIT’s net currency exposure was 72% to USD reporting funds, assets and liabilities, and 28% 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 the February and May 2014 returns of capital, unaudited NTAs used for January to December), together with the discount performance of AIT from 31 December 2013 to 31 December 2014 is given below. AIT’s unit price to NTA discount remained between 10% and 30% for the 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 31.1% 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 31 December 2014:

FUND NAME	STRATEGY	% OF GROSS ASSETS
TPG-Axon Partners Offshore Ltd	Multi-Strategy	8.7%
Cerberus International Ltd	Distressed Securities	6.9%
Fortress Partners Fund LP	Multi-Strategy	6.9%
Eton Park Overseas Fund Ltd	Multi-Strategy	6.6%
Marathon Special Opportunity Fund	Credit Related Investments	5.1%
Canyon Value Realization Fund	Multi-Strategy	4.7%
Drawbridge Special Opportunities	Asset Based Lending	4.4%
Silver Point Capital Partnership LP	Distressed Securities	3.7%
Och-Ziff Asia Overseas Fund	Multi-Strategy	3.0%
Fallaron II Holdings LP	Multi-Strategy	2.8%
<b>TOTAL</b>		<b>52.8%</b>

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** (8.7% 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 four separate side pocket investments including real estate related investments and an investment in an iron ore development company in Brazil. During the year under review, returned approximately USD 0.6m to AIT.

**Cerberus International** (6.9% 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 0.6m to AIT during the period under review.

**Fortress Partners** (6.9% 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 0.3m to AIT.

**Eton Park Overseas Fund** (6.6% of Gross Assets): AIT no longer has exposure to Eton Park's main funds; the only exposure is to side pocket positions. Eton Park returned approximately USD 0.5m 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. Marathon returned approximately USD 0.1m to AIT in the period under review.

**Canyon Value Realization Fund** (4.7% 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. Canyon Value returned approximately USD 0.4m to AIT in the period under review.

**Drawbridge** (4.4% 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. 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** (3.7% of Gross Assets): AIT's exposure to Silver Point Capital is majority held in 4 investments. Silver Point returned approximately USD 0.2m to AIT in the period under review.

**Och-Ziff Asia Overseas Fund** (3.0% of Gross Assets): AIT's exposure to Och-Ziff is majority held in 4 investments with exposure to Real Estate, private equity, and IT services in India. Och-Ziff returned USD 1.4m to AIT in the period under review.

**Fallaron II Holdings** (2.8% of Gross Assets): Fallaron II is a side pocket type investment; they returned approximately USD 0.1m to AIT in the period under review.

### *Further Updates:*

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

Following the settlements previously disclosed, one indemnity claim against Everest Babcock & Brown Income Fund (“**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 2.2% 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.

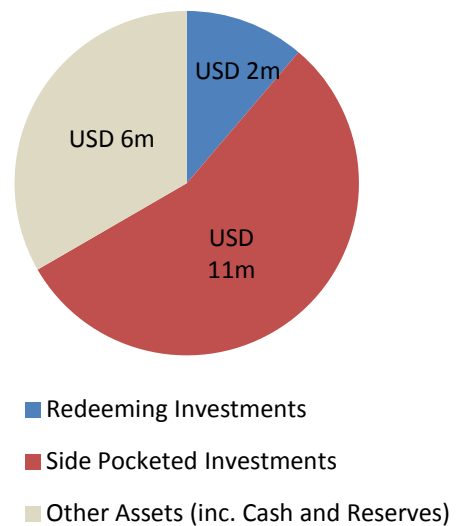
Side pocket positions are esoteric and extremely illiquid investments that are made by an underlying investment manager from within an underlying fund and are treated as a separate account to the main fund. When a side pocket investment is made, all current investors in the main fund receive a pro rata 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.

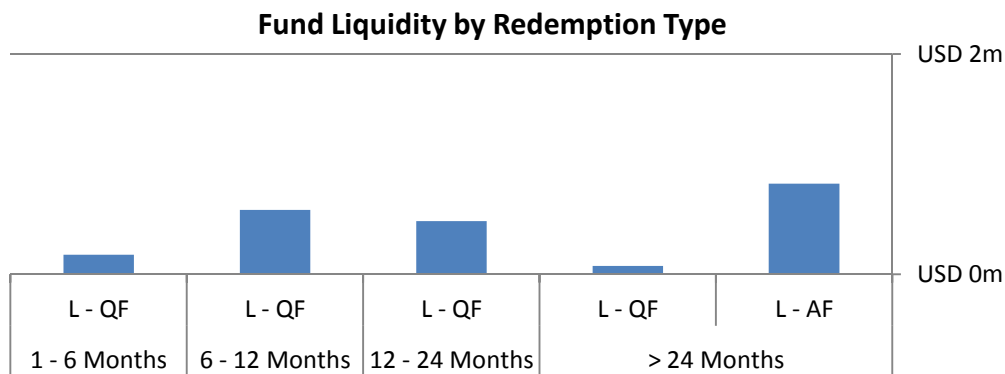
As with all fund positions, Laxey monitor and speak to the underlying investment funds on a regular basis in order to better understand the portfolio’s risk and its liquidity profile.

AIT’s current side pocket exposure is 56% 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:



**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.

4% 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 60% of gross assets.

This leaves 7% 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



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

In relation to our audit of the financial report of Alternative Investment Trust for the financial year ended 31 December 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.

A handwritten signature in black ink that reads 'Ernst &amp; Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink that reads 'Rita Da Silva' in a cursive style.

Rita Da Silva  
Partner  
Sydney  
25 February 2015

**Alternative Investment Trust**  
**Statement of Profit or Loss and Comprehensive Income**  
**For the year ended 31 December 2014**

**STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME**

	Notes	Year ended 31 December 2014 \$'000	31 December 2013 \$'000
<b>Investment income</b>			
Net gains on financial instruments held at fair value through profit or loss	4	1,560	7,662
Interest income		105	129
Other foreign exchange gains/(losses)		1	(53)
<b>Total investment income</b>		1,666	7,738
<b>Expenses</b>			
Responsible Entity fees	14	84	84
Laxey Management fees	14	189	540
Other operating expenses	3	638	660
<b>Total operating expenses</b>		911	1,284
<b>Operating profit attributable to unitholders</b>		755	6,454
<b>Change in net assets attributable to unitholders</b>		(755)	(6,454)
<b>Total comprehensive income</b>		–	–
		Cents	Cents
<b>Earnings per unit for profit from continuing operations</b>			
Basic and diluted earnings per unit	5	0.58	4.94

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



**Alternative Investment Trust  
Statement of Financial Position  
As at 31 December 2014**

**STATEMENT OF FINANCIAL POSITION**

		<b>As at</b>	
	Notes	<b>31 December 2014 \$'000</b>	31 December 2013 \$'000
<b>Assets</b>			
Cash and cash equivalents	8	5,469	4,857
Receivables	9	33	30
Financial assets at fair value through profit or loss	6	17,837	29,416
<b>Total assets</b>		23,339	34,303
<b>Liabilities</b>			
Payables	10	261	218
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		261	218
<b>Net assets attributable to unitholders</b>		23,078	34,085
<b>Represented by:</b>			
Units on issue		398,188	409,950
Undistributed losses to unitholders		(375,110)	(375,865)
		23,078	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 year ended 31 December 2014**

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

	Units on issue \$'000	Undistributed income/(loss) \$'000	Total \$'000
<b>At 1 January 2014</b>	409,950	(375,865)	34,085
Return of capital	(11,762)	–	(11,762)
Change in net assets attributable to unitholders	–	755	755
<b>As at 31 December 2014</b>	<u>398,188</u>	<u>(375,110)</u>	<u>23,078</u>

	Units on issue \$'000	Undistributed income/(loss) \$'000	Total \$'000
<b>At 1 January 2013</b>	453,078	(382,319)	70,759
Return of capital	(43,128)	–	(43,128)
Change in net assets attributable to unitholders	–	6,454	6,454
<b>As at 31 December 2013</b>	<u>409,950</u>	<u>(375,865)</u>	<u>34,085</u>

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

**Alternative Investment Trust**  
**Statement of Cash Flows**  
**For the year ended 31 December 2014**

**STATEMENT OF CASH FLOWS**

	Notes	Year ended	
		31 December 2014 \$'000	31 December 2013 \$'000
<b><i>Cash flows from operating activities</i></b>			
Interest received		105	129
Other income received		–	4
Payment of Management and Responsible Entity fees		(259)	(636)
Other expenses paid		(608)	(924)
GST received		(4)	17
<b>Net cash used in operating activities</b>	7	(766)	(1,410)
<b><i>Cash flows from investing activities</i></b>			
Proceeds from sale of investments		13,139	43,049
<b>Net cash provided by investing activities</b>		13,139	43,049
<b><i>Cash flows from financing activities</i></b>			
Cash outflow through returns of capital		(11,762)	(43,128)
<b>Net cash used in financing activities</b>		(11,762)	(43,128)
<b>Net increase/(decrease) in cash and cash equivalents</b>		611	(1,489)
Cash and cash equivalents at the beginning of the year		4,857	6,319
Effects of foreign currency exchange rate changes on cash and cash equivalents		1	27
<b>Cash and cash equivalents at the end of the year</b>	8	5,469	4,857

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

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **GENERAL INFORMATION**

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

The Responsible Entity of AIT is The Trust Company (RE Services) Limited (ABN 45 003 278 831; AFSL 235150). The registered office and principal place of business of the Responsible Entity is Level 12, 123 Pitt Street, Sydney, NSW 2000.

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

The financial statements were authorised for issue by the Directors on 25 February 2015. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **(a) Basis of preparation**

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

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

#### *Compliance with International Financial Reporting Standards (IFRS)*

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

#### **(b) Foreign currency translation**

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Cash and cash equivalents**

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

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

**(d) Revenue**

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

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

**(e) Payables**

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

**(f) Receivables**

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

**(g) Net assets attributable to unitholders**

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

Amounts payable to unitholders are classified as a financial liability.

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

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

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

**Swap receivable (Underlying Investment Portfolio)**

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Direct Investments in Portfolio Funds**

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

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

**(i) Income tax**

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

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

**(j) Other taxes**

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

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

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

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

**(k) Distributions**

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

**(l) Earnings per unit**

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

**(m) Impairment of assets**

Assets are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Current market prices are used to determine recoverable amount.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(n) Fair value of financial instruments**

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

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

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is a market based measure considered from the perspective of market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Responsible Entity's and Investment Manager's own assumptions are set to reflect those that the market participants would use in pricing the asset or liability at the measurement date. The Responsible Entity and Investment Manager use prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for some instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3. The fair value hierarchy of AIT's financial assets has been disclosed in note 6.

**(o) Accounting assumptions**

*Variability of foreign currency rates*

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

**(p) New accounting standards and interpretations**

Accounting standards and interpretations that have been issued or amended but are not yet effective have not been adopted by the Trust for the annual reporting year ended 31 December 2014:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(p) New accounting standards and interpretations (continued)**

*AASB 9 'Financial Instruments'* – AASB 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. It is effective for annual 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.

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

**2. SEGMENT INFORMATION**

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

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

	<b>Year ended</b>	
	<b>31 December</b>	31 December
	<b>2014</b>	2013
	<b>\$'000</b>	\$'000
<b>Operating segment</b>		
Investment management:		
Attributable to Australia	1,666	7,738
<b>Total investment income</b>	<b>1,666</b>	<b>7,738</b>

**3. OTHER EXPENSES**

	<b>Year ended</b>	
	<b>31 December</b>	31 December
	<b>2014</b>	2013
	<b>\$'000</b>	\$'000
<b>Other expenses</b>		
Professional fees	223	205
Fund administration and custody expenses	249	272
Other general and administrative expenses	109	126
Auditor's remuneration	57	57
<b>Total other operating expenses</b>	<b>638</b>	<b>660</b>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

	<b>Year ended</b>	
	<b>31 December 2014</b>	31 December 2013
	<b>\$'000</b>	\$'000
<b>Financial instruments</b>		
Fair value gains on Underlying Investment Portfolio	1,455	7,685
Net losses on direct investments designated as fair value through profit or loss	(6)	(23)
Fair value gains on unlisted managed fund	111	–
<b>Total net gains on financial instruments held at fair value through profit or loss</b>	<b>1,560</b>	<b>7,662</b>

**5. EARNINGS PER UNIT**

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

	<b>Year ended</b>	
	<b>31 December 2014</b>	31 December 2013
	<b>\$'000</b>	\$'000
Profit attributable to unitholders (\$'000)	755	6,454
Weighted average number of units on issue ('000)	130,692	130,692
Basic and diluted earnings per unit in cents	0.58	4.94

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

**6. FAIR VALUES**

	<b>Year ended</b>	
	<b>31 December 2014</b>	31 December 2013
	<b>\$'000</b>	\$'000
<b>Financial assets</b>		
Underlying Investment Portfolio	17,208	28,892
Unlisted Managed Fund	111	–
Direct Investment in Portfolio Fund (EBBIF New Class C)	518	524
<b>Total financial assets held at fair value through profit or loss</b>	<b>17,837</b>	<b>29,416</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6. FAIR VALUES (CONTINUED)**

The Underlying Investment Portfolio represents AIT's exposure to the Total Return Swap. Fair value of the swap is calculated with reference to the fair value of the absolute return funds held within the Swap. The fair value of these assets is based on the net asset value information received from the underlying fund's administrator, and, where appropriate, estimated performance data from the underlying fund's manager. 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 fund manager, confirming the holding and closing value as at the reporting date. All direct investments are carried at their net asset value and no estimates/judgements were made by the management on valuation.

The following fair value hierarchy table presents information about AIT's financial assets measured at fair value on a recurring basis as at 31 December 2014 and 31 December 2013.

	<b>31 December 2014</b>			<b>Total \$'000</b>
	<b>Level 1 \$'000</b>	<b>Level 2 \$'000</b>	<b>Level 3 \$'000</b>	
<b>Financial assets</b>				
Underlying Investment Portfolio	–	–	17,208	17,208
Unlisted Managed Fund	–	–	111	111
Direct Investment in Portfolio Fund (EBBIF New Class C)	–	–	518	518
<b>Total financial assets held at fair value through profit or loss</b>	<b>–</b>	<b>–</b>	<b>17,837</b>	<b>17,837</b>

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

	<b>Underlying Investment Portfolio</b>	<b>Unlisted Managed Fund</b>	<b>Direct Investment in Portfolio Fund (EBBIF New Class C)</b>	<b>Total</b>
At 1 January 2014	28,892	–	524	29,416
Net realised gain	744	–	–	744
Net change in unrealised gain/(loss)	711	111	(6)	816
Sales	(13,139)	–	–	(13,139)
<b>As at 31 December 2014</b>	<b>17,208</b>	<b>111</b>	<b>518</b>	<b>17,837</b>

In addition to the financial assets held at fair value through profit and loss disclosed above, AIT holds 365 Class A2 Notes in a Babcock and Brown CDO Fund, which are currently valued at \$110,914 (2013: \$nil). The Investment Manager did not expect AIT to receive any proceeds from the CDO and as such it was valued at nil value in the 2013 financial statements. Proceeds amounting to \$112,524 were received on 2 February 2015 which represent the full claim AIT has in respect of this position. This position is classified as Level 3 due to the illiquid nature of the underlying investments within the CDO.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6. FAIR VALUES (CONTINUED)**

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

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

	<b>Underlying Investment Portfolio</b>	<b>Unlisted Managed Fund</b>	<b>Direct Investment in Portfolio Fund (EBBIF New Class C)</b>	<b>Total</b>
At 1 January 2013	64,336	–	547	64,883
Net realised loss	(3,365)	–	–	(3,365)
Net change in unrealised gain/(loss)	11,050	–	(23)	11,027
Sales	(43,129)	–	–	(43,129)
<b>As at 31 December 2013</b>	<b>28,892</b>	<b>–</b>	<b>524</b>	<b>29,416</b>

All financial assets at fair value through profit or loss are not valued based on observable market data and are subject to liquidity restrictions and as such they have been determined to be Level 3 assets. The valuation of the Underlying Investment Portfolio is based on published redemption prices and as such a meaningful sensitivity is not available on the valuation inputs and resulting impact on the valuation of the Underlying Investment Portfolio. The values have not been adjusted for liquidity as the Investment Manager is in regular contact with underlying investment managers and deem the current values as reasonable. Refer to Financial Risk Management Objectives and Policies in Note 12 for details of AIT's sensitivity to market risk.

There were no transfers between levels during the years ended 31 December 2014 and 31 December 2013. The Responsible Entity and Laxey assess hierarchical classification at each reporting date.

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

	<b>Year ended</b>	
	<b>31 December</b>	31 December
	<b>2014</b>	2013
	<b>\$'000</b>	\$'000
<b>Reconciliation of profit/(loss) to net cash used in operating activities</b>		
Change in net assets attributable to unitholders	755	6,454
Fair value gains on Underlying Investment Portfolio	(1,455)	(7,685)
Fair value losses on direct financial assets	6	23
Fair value gains on unlisted managed fund	(111)	–
Foreign exchange (gain)/loss	(1)	53
Decrease/(increase) in receivables	(3)	20
(Decrease)/increase in payables	43	(275)
<b>Net cash used in operating activities</b>	<b>(766)</b>	<b>(1,410)</b>

**8. CASH AND CASH EQUIVALENTS**

	<b>31 December</b>	31 December
	<b>2014</b>	2013
	<b>\$'000</b>	\$'000
Domestic cash at bank	5,408	4,801
Foreign currency holdings	61	56
<b>Total cash and cash equivalents</b>	<b>5,469</b>	<b>4,857</b>

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

**9. RECEIVABLES**

	<b>31 December</b>	31 December
	<b>2014</b>	2013
	<b>\$'000</b>	\$'000
GST recoverable	16	12
Other receivables	17	18
<b>Total receivables</b>	<b>33</b>	<b>30</b>

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

**10. PAYABLES**

	<b>31 December</b>	31 December
	<b>2014</b>	2013
	<b>\$'000</b>	\$'000
Amounts owing to Responsible Entity	15	7
Management fees	64	58
Fund administration and custody expenses payable	54	27
Other payables	128	126
<b>Total payables</b>	<b>261</b>	<b>218</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11. UNITS ON ISSUE**

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

	<b>31 December 2014</b>	31 December 2013	<b>31 December 2014</b>	31 December 2013
	<b>No. of units</b>	No. of units	<b>\$'000</b>	\$'000
Opening balance	130,692,470	130,692,470	34,085	70,759
Return of capital	–	–	(11,762)	(43,128)
Change in net assets attributable to unitholders	–	–	755	6,454
Closing balance	<u>130,692,470</u>	<u>130,692,470</u>	<u>23,078</u>	<u>34,085</u>

**12. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES**

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

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

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

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

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

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

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

**(a) Credit risk**

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**12. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)**

**(a) Credit risk (continued)**

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

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

<b>31 December 2014</b>	<b>Australia \$’000</b>	<b>U.S. \$’000</b>	<b>Total \$’000</b>
Cash and cash equivalents	5,408	61	5,469
Receivables	33	–	33
Financial assets at fair value through profit or loss	17,837	–	17,837
<b>Total</b>	<b>23,278</b>	<b>61</b>	<b>23,339</b>

<b>31 December 2013</b>	<b>Australia \$’000</b>	<b>U.S. \$’000</b>	<b>Total \$’000</b>
Cash and cash equivalents	4,801	56	4,857
Receivables	30	–	30
Financial assets at fair value through profit or loss	29,416	–	29,416
<b>Total</b>	<b>34,247</b>	<b>56</b>	<b>34,303</b>

The credit exposure of the financial assets designated as fair value through profit or loss in Australia includes the intrinsic value of the Total Return Swap of \$17,208,182 (2013: \$28,892,190), being the fair value of the Underlying Investment Portfolio. This credit risk is mitigated by the fact that assets with a total value of \$23,155,069 (2013: \$36,873,747) are held by third party custodians and subject to first ranking changes in favour of the Responsible Entity.

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

	<b>2014 \$’000</b>	2013 \$’000
Financial services	629	524
<b>Total</b>	<b>629</b>	<b>524</b>

**(b) Liquidity and cash flow risk**

Liquidity risk is the risk that AIT will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate.

The table below analyses AIT’s financial liabilities into relevant maturity groupings based on the remaining period from 31 December 2014 to the contractual maturity date. The amounts in the table are contractual undiscounted cash flows. Balances due equal their carrying values, as the impact of discounting is not considered significant.

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**12. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)**

**(b) Liquidity and cash flow risk (continued)**

	Less than 1 month \$'000	1-12 months \$'000	Greater than 12 months \$'000	Total \$'000
<b>At 31 December 2014</b>				
Payables	261	–	–	261
Total financial liabilities	261	–	–	261
<b>At 31 December 2013</b>				
Payables	218	–	–	218
Total financial liabilities	218	–	–	218

As previously disclosed, Redleaf Capital Limited (“Redleaf”), formerly known as Everest Capital Limited, the former trustee of EARF and EBBIF (“the Funds”), had lodged formal indemnity claims against the Funds together with a number of other former Everest Funds. One Managed Investment Funds Limited (“One”) has advised that a settlement has been reached. AUD 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.

Redleaf has made two indemnity claims against Everest Babcock & Brown Income Fund (“EBBIF”) one of which 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 31 December 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 are not against AIT itself. As such, the impact of the claims made is limited by the assets of EBBIF – which account for 2.24% of AIT’s net assets as at 31 December 2014. The claims are likely to impact on the time taken by One to liquidate EBBIF.

**(c) Market risk**

Market price risk is the risk that the value of AIT’s investment portfolio will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates and equity prices. This risk is managed by ensuring that all activities are transacted in accordance with investment guidelines outlined in this note. Going forward, no new assets are to be sought as the Trust is being wound down and the assets are being sold in an orderly fashion.

**(i) Foreign exchange risk**

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**12. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)**

**(c) Market risk (continued)**

(i) Foreign exchange risk (continued)

The following table indicates the currencies to which AIT had significant exposure at 31 December 2014 on its assets and liabilities highlighting AIT's net exposure to foreign exchange risk.

<b>31 December 2014</b>	<b>Australian Dollars \$'000</b>	<b>U.S. Dollars \$'000</b>	<b>Total \$'000</b>
<b>Assets</b>			
Cash and cash equivalents	5,408	61	5,469
Receivables	33	–	33
Financial assets at fair value through profit or loss	629	17,208	17,837
<b>Total assets</b>	<b>6,070</b>	<b>17,269</b>	<b>23,339</b>
<b>Liabilities</b>			
Payables	241	20	261
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>241</b>	<b>20</b>	<b>261</b>
<b>Net assets attributable to unitholders</b>	<b>5,829</b>	<b>17,249</b>	<b>23,078</b>
<b>Total foreign currency exposure</b>	<b>–</b>	<b>17,249</b>	<b>17,249</b>

At 31 December 2014, had the exchange rate of the US dollar and other currencies increased or decreased by 10% with all other variables held constant, the impact on the net assets attributable to unitholders and on profit or loss is reflected in the table below.

<b>31 December 2014</b>	<b>Australian Dollars \$'000</b>	<b>U.S. Dollars \$'000</b>	<b>Total \$'000</b>
Increase of 10%	–	1,725	1,725
Decrease of 10%	–	(1,725)	(1,725)



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**12. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)**

**(c) Market risk (continued)**

(i) Foreign exchange risk (continued)

The following table indicates the currencies to which AIT had significant exposure at 31 December 2013 on its assets and liabilities highlighting AIT's net exposure to foreign exchange risk.

<b>31 December 2013</b>	<b>Australian Dollars \$'000</b>	<b>U.S. Dollars \$'000</b>	<b>Total \$'000</b>
<b>Assets</b>			
Cash and cash equivalents	4,801	56	4,857
Receivables	30	–	30
Financial assets at fair value through profit or loss	524	28,892	29,416
<b>Total assets</b>	<b>5,355</b>	<b>28,948</b>	<b>34,303</b>
<b>Liabilities</b>			
Payables	192	26	218
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>192</b>	<b>26</b>	<b>218</b>
<b>Net assets attributable to unitholders</b>	<b>5,163</b>	<b>28,922</b>	<b>34,085</b>
<b>Total foreign currency exposure</b>	<b>–</b>	<b>28,922</b>	<b>28,922</b>

At 31 December 2013, had the exchange rate of the US dollar and other currencies increased or decreased by 10% with all other variables held constant, the impact on the net assets attributable to unitholders and on profit or loss is reflected in the table below.

<b>31 December 2013</b>	<b>Australian Dollars \$'000</b>	<b>U.S. Dollars \$'000</b>	<b>Total \$'000</b>
Increase of 10%	–	2,892	2,892
Decrease of 10%	–	(2,892)	(2,892)

(ii) Interest rate risk

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**12. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)**

**(c) Market risk (continued)**

(ii) Interest rate risk (continued)

31 December 2014	Fixed interest rate			Non-interest bearing \$'000	Total \$'000
	Floating Interest rate \$'000	1-12 months \$'000	Greater than 12 months \$'000		
<b>Assets</b>					
Cash and cash equivalents	5,469	–	–	–	5,469
Receivables	–	–	–	33	33
Financial assets at fair value through profit or loss	–	–	–	17,837	17,837
<b>Total assets</b>	<b>5,469</b>	<b>–</b>	<b>–</b>	<b>17,870</b>	<b>23,339</b>
<b>Liabilities</b>					
Payables	–	–	–	261	261
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>261</b>	<b>261</b>
<b>Net exposure</b>	<b>5,469</b>	<b>–</b>	<b>–</b>	<b>17,609</b>	<b>23,078</b>

31 December 2013	Fixed interest rate			Non-interest bearing \$'000	Total \$'000
	Floating Interest rate \$'000	1-12 months \$'000	Greater than 12 months \$'000		
<b>Assets</b>					
Cash and cash equivalents	4,857	–	–	–	4,857
Receivables	–	–	–	30	30
Financial assets at fair value through profit or loss	–	–	–	29,416	29,416
<b>Total assets</b>	<b>4,857</b>	<b>–</b>	<b>–</b>	<b>29,446</b>	<b>34,303</b>
<b>Liabilities</b>					
Payables	–	–	–	218	218
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>218</b>	<b>218</b>
<b>Net exposure</b>	<b>4,857</b>	<b>–</b>	<b>–</b>	<b>29,228</b>	<b>34,085</b>

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**12. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)**

**(c) Market risk (continued)**

(iii) Equity price risk

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

As at 31 December 2014, a positive 5% sensitivity would have had an impact on the Trust's net assets attributable to unitholders and on profit or loss to the amount of \$886,300 (2013: \$1,470,800). A negative sensitivity would have an equal but opposite effect.

**Investment and leverage guidelines**

AIT is no longer permitted to:

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

**Investment strategy**

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

**Capital management**

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

**13. DERIVATIVE FINANCIAL INSTRUMENTS**

AIT previously entered into transactions in various derivative financial instruments with certain risks. The carrying value of these investments is disclosed in note 6. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**13. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

**(a) Swaps**

**Total return equity swap**

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

**(b) Foreign exchange**

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

**14. RELATED PARTY TRANSACTIONS**

**Key management personnel**

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

**Name**

Andrew Cannane

Christopher Green (appointed as a Director on 07 March 2014)

Gillian Larkins (appointed as a Director on 07 March 2014)

David Grbin (resigned as a Director on 07 March 2014)

Rupert Smoker (resigned as a Director on 07 March 2014)

Glenn Foster (appointed as an Alternate Director for Gillian Larkins on 07 March 2014)

Anna O'Sullivan (appointed as an Alternate Director for each of Andrew Cannane and Christopher Green on 07 March 2014)

Joanne Hawkins (appointed as an Alternate Director for Gillian Larkins on 07 March 2014)

**Key management personnel loan disclosures**

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

**Other transactions within AIT**

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

**Responsible Entity's/Investment Manager's fees**

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**14. RELATED PARTY TRANSACTIONS (CONTINUED)**

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

	<b>31 December 2014</b>	31 December 2013
	\$	\$
Fees paid and payable to the Responsible Entity	83,600	83,600
Fees paid and payable to Laxey	189,697	540,222
Custody fees paid and payable to the Trust Company Limited	30,666	30,258
	<u>303,963</u>	<u>654,080</u>

As of 31 December 2014, AIT had a total of \$93,411 (2013: \$73,163) payable to the related parties.

**Holding of units**

During or since the end of the financial year, none of the Directors of the Responsible Entity held units in the Trust, either directly, indirectly, or beneficially (2013: nil).

**15. AUDITOR'S REMUNERATION**

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

	<b>Year ended</b>	
	<b>31 December 2014</b>	31 December 2013
	\$	\$
<i>During the year the auditor of AIT earned the following remuneration:</i>		
<b>Ernst &amp; Young</b>		
Audit and review of financial statements	56,650	56,650
Other assurance services	11,000	11,000
Total remuneration	<u>67,650</u>	<u>67,650</u>

**16. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS**

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

**17. SUBSEQUENT EVENTS**

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

**DIRECTORS' DECLARATION**

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

- (a) the financial statements and notes, set out on pages 20 to 41, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of AIT as at 31 December 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards, other mandatory professional reporting requirements and the Corporations Regulations 2001.
- (b) there are reasonable grounds to believe that AIT will be able to pay its debts as and when they become due and payable; and
- (c) the financial statements and notes have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board as disclosed in Note 1.

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

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



Andrew Cannane  
Director  
Sydney, 25 February 2015

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

## Report on the financial report

We have audited the accompanying financial report of Alternative Investment Trust (the "Trust"), which comprises the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in net assets to unitholders and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### ***Responsible Entity's responsibility for the financial report***

The directors of The Trust Company (RE Services) Limited, the Responsible Entity of the Trust, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### ***Auditor's responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Trust's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### ***Independence***

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

## Opinion

In our opinion:

- a. the financial report of Alternative Investment Trust is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the Trust's financial position as at 31 December 2014 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).



Ernst & Young



Rita Da Silva  
Partner  
Sydney  
25 February 2015



**UNITHOLDER INFORMATION**

The following unitholder information is provided as at 6 February 2015.

**A. Distribution of unitholders**

Size of holding	Number of unitholders	Number of units	% of units issued
Ranges			
1 to 1,000	541	294,350	0.23%
1,001 to 5,000	301	817,643	0.62%
5,001 to 10,000	102	779,531	0.60%
10,001 to 100,000	173	5,034,319	3.85%
100,001 and Over	44	123,766,627	94.70%
<b>Total</b>	<b>1,161</b>	<b>130,692,470</b>	<b>100.00%</b>

**B. 20 Largest unitholders**

Rank	Name of unitholder	Number of units	% of units issued
1	NATIONAL NOMINEES LIMITED	30,113,276	23.04%
2	CITICORP NOMINEES PTY LIMITED	20,256,542	15.50%
3	UBS NOMINEES PTY LTD	15,495,252	11.86%
4	BRISPOT NOMINEES PTY LTD	10,258,268	7.85%
5	DYNASTY PEAK PTY LTD	7,095,928	5.43%
6	MR SIMON ROBERT EVANS & MRS KATHRYN MARGARET EVANS	6,552,276	5.01%
7	DAKOTA CAPITAL PTY LTD	5,330,838	4.08%
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,503,001	3.45%
9	ASSURANCE CAPITAL PTY LTD	3,000,000	2.30%
10	LIC INVESTMENTS PTY LTD	2,800,000	2.14%
11	MR GREGORY HUGH HALLIDAY & MR SIMON ROBERT EVANS & MR THOMAS VERNON FURNER	2,450,000	1.87%
12	TAYCOL NOMINEES PTY LTD	2,000,000	1.53%
13	MR SIMON ROBERT EVANS	2,000,000	1.53%
14	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	1,607,251	1.23%
15	MRS KATHRYN MARGARET EVANS	1,000,000	0.77%
16	CHRISWALL HOLDINGS PTY LTD	1,000,000	0.77%
17	ABBAWOOD NOMINEES PTY LTD	906,765	0.69%
18	MR SIMON ROBERT EVANS	700,000	0.54%
19	G CHAN PENSION PTY LIMITED	580,516	0.44%
20	HOWZAT SERVICES PTY LTD	550,000	0.42%
<b>Total</b>		<b>118,199,913</b>	<b>90.45%</b>

**UNITHOLDER INFORMATION (CONTINUED)**

**C. Substantial unitholders**

<b>Name of unitholder</b>	<b>Number of units</b>	<b>% of units issued</b>
WEISS GROUP	30,357,835	23.23%
FINANCIAL & INVESTMENT MANAGEMENT GROUP LTD	19,799,543	15.15%
SIMON ROBERT EVANS	15,639,379	11.97%
REGAL FUNDS MANAGEMENT PTY LIMITED	15,495,252	11.86%
USB AG	11,275,559	7.85%
DYNASTY PEAK PTY LIMITED	7,165,928	5.48%
DAKOTA CAPITAL PTY LIMITED ATF DAKOTA SP MASTER FUND	6,830,838	5.23%

**D. Voting Rights**

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

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

**OTHER INFORMATION**

**Company Secretary**

Joanne Hawkins, Glenda Charles, Thornton Christensen, and Sylvie Dimarco are the company secretaries of The Trust Company (RE Services) Limited.

**Stock exchange listing**

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

**Marketable parcels**

The number of unitholders holding less than a marketable parcel of \$500 worth of units is 749 and they hold a total 714,775 units.

**Buy-back**

There is no current on market buy-back.

**Voluntary escrow**

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

**Unquoted units**

There are no unquoted units on issue.

**Registered office of Responsible Entity**

The Trust Company (RE Services) Limited  
Level 12, 123 Pitt Street  
Sydney NSW 2000  
Telephone: 02 8295 8100

**Unit registry**

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