

December 2008



Everest Babcock & Brown Alternative Investment Trust (EBI) has exposure to a portfolio of leading absolute return funds and selected direct investments. The objective of the Investment Portfolio is to generate attractive risk-adjusted absolute returns over the medium-to-long term while maintaining a constant focus on capital preservation.

Fund facts as at 31 December 2008

Monthly return ¹	-7.03%
NTA as at 31 December 2008 ^{1,2}	\$2.38
Investment trust leverage ratio ³	57.3%
ASX Code	EBI

NTA returns (net)²

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2008¹	-4.18%	0.77%	-2.29%	1.04%	1.80%	-2.15%	-1.58%	-2.14%	-9.84%	-15.15%	-8.57%	-7.03%	-40.52%
2007	2.60%	-0.13%	2.33%	2.51%	-4.89% ⁴	0.65%	0.00%	-3.44%	1.27%	3.27%	-1.70%	0.74%	2.90%
2006	4.15%	-0.21%	2.63%	2.01%	-3.94%	0.32%	-2.40%	1.72%	1.69%	2.85%	3.70%	2.67%	15.92%
2005	-	-	-	-3.60%	1.00%	2.71%	4.80%	0.23%	3.20%	-3.76%	2.76%	2.46%	9.83%

Distribution history

	31 December 2005	30 June 2006	31 December 2006	30 June 2007	31 December 2007	30 June 2008
Distribution	\$0.395	\$0.234	\$0.434	\$0.238	\$0.00	\$0.065

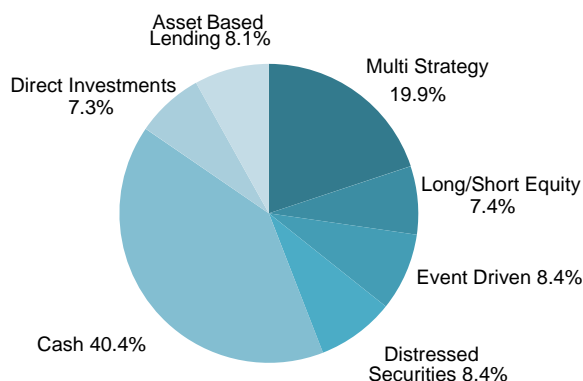
¹ Unaudited – In calculating the NTA, EBI asset values have been calculated using unaudited absolute return fund performance estimates and estimated valuations of the Direct Investment Portfolio based on holding those assets to maturity for the month being reported.

² For the purposes of calculating the above figures, the Australian Equivalents to International Financial Reporting Standards (AEIFRS) have been applied (other than for classification of net assets attributable to unitholders of the EBI where Australian Generally Accepted Accounting Principles (AGAAP), as applied before the introduction of AEIFRS, have been used).

³ Gross Debt / Gross Assets

⁴ The May 2007 monthly NTA performance was impacted by the EBI rights issue and placement which were completed that month and does not include the implied value of EBB shares received by investors who successfully participated in the EBI capital raising. The performance of the underlying investment portfolio (excluding the effect of the capital raising) for May 2007 was +2.40%.

Investment strategy exposure*



* Exposure numbers may not total exactly due to rounding. Based on the gross value of the Investment Portfolio. Does not include impact of FX, interest rate or equity hedges. Investment strategy and exposure data as at the first business day of the following month. Top ten exposures shown on a look through basis, as appropriate.

EBI top ten exposures*

Fund	Strategy	Weight
Drawbridge Special Opportunities	Asset Based Lending	8.1%
TPG Axon	Multi Strategy	7.1%
Eton Park	Multi Strategy	5.5%
Marathon Special Opportunities	Distressed Securities	2.9%
Perry Partners	Event Driven	2.8%
Plainfield Special Situations	Distressed Securities	2.6%
Silverpoint	Distressed Securities	2.2%
Shumway	Long/Short Equity	2.1%
Taconic Opportunity Fund	Event Driven	2.0%
Atticus Global	Event Driven	1.7%
Total		37.0%

EBI performance versus market benchmarks as at 31 December 2008

	December 2008	Calendar YTD	Rolling 12 months	Since Inception ¹	Annualised Rate of Return Since Inception
EBI	-7.03%	-40.52%	-40.52%	-22.08%	-6.44%
HFRX Global Hedge Fund Index	-1.22%	-23.25%	-23.25%	-9.27%	-2.56%
MSCI Hedge Invest Index	-1.91%	-25.71%	-25.71%	-11.39%	-3.17%
MSCI World Index ²	1.02%	-38.69%	-38.69%	-14.54%	-4.10%
S&P 500 ³	1.06%	-37.00%	-37.00%	-17.49%	-5.00%

1 Cumulative since inception performance not annualised. 2 Refers to The MSCI World net index, local currency. 3 Refers to S&P 500 Total Return Index.

Investment commentary

2008 was a year of unprecedented activity across global markets. Bear Stearns merged with JPMorgan, Lehman Brothers went into bankruptcy, Merrill Lynch merged with Bank of America whilst Goldman Sachs and Morgan Stanley became bank holding companies. AIG, GMAC and the US automotive industry needed bailing out, whilst interest rates were slashed and massive amounts of liquidity were injected by central banks globally.

Amid an environment of continued volatility, markets remained mixed in December. In the US, the S&P 500 index was +1.06% for the month and -37.00% for the year, whilst globally, the MSCI World index was +1.02% in December and -38.69% for the year. Equity markets rallied in December off their November lows in the expectation that significant fiscal and monetary stimulus would begin to flow through.

Meanwhile the credit markets remained seized up despite additional US Federal Reserve rate cuts and significant liquidity injections in an environment littered with government bailouts. Whilst credit markets did rally later in the month, the S&P/LSTA Leveraged Loan Index (an index of U.S. denominated institutional leveraged loans) was still down 2.95% for December and remains at distressed levels. According to S&P, the average secondary leveraged loan price (a reflection of the price at which leveraged loans are trading) was just 62% of par prices at the end of December.

Investor confidence also took another hit in December with revelations of the US\$50 billion Madoff fraud. Investors are still assessing their potential losses, whilst the litigation wave is only just beginning. EBI has not invested in any Madoff hedge funds or the widely marketed feeder funds which have exposure to the Madoff investment strategies.

December also saw the big three US auto manufacturers continue to struggle with GM rescued from the brink of bankruptcy by the extension of government credit. Meanwhile Chrysler and Ford face similar issues amid waning demand for

their vehicles and the breakdown in Chrysler's merger talks with GM.

Amidst the backdrop of bad news, EBI's investment managers have also had a very difficult year. However, managers are seeing select investment opportunities with many holding cash balances to take advantage of these opportunities going forward. With equity market valuations at historic lows, an attractive risk/reward equation is beginning to develop for longer term focused investors. Meanwhile our credit managers remain focused on areas of distress or dislocation for potential investment opportunities.

EBI's losses for the month were predominantly concentrated amongst the Fund's multi-strategy and asset based lending managers with losses across their credit portfolios and mark-downs to their special/private investments. Capital remains scarce with credit spreads at elevated levels leading to mark-downs amidst a backdrop of refinancing requirements. Our managers are detecting distress in a number of sectors within the credit markets and are positioning their portfolios to take advantage of these opportunities. The losses from the multi strategy managers were partially offset by gains within the long/short equity strategy as portfolios recovered from their November lows.

The EBI direct asset portfolio performance for the month included the impact of impairment of EBI's exposure relating to Coogee Resources, to reflect the sale price for the asset. The total impairment for the EBI direct asset portfolio represented 2.1% of the total EBI net assets and primarily relates to Coogee Resources. In addition, the EBI direct assets portfolio also received the full repayment on its railcar leasing mezzanine debt investment in December 2008.

We continue to actively monitor liquidity and overall risk exposures. EBI enters 2009 relatively well positioned to take advantage of what we expect to be significant investment opportunities offered by our investment managers.

Contact us

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