APPENDIX 4E

Annual Report
For the year ended 31 December 2011

Name of entity: Alternative Investment Trust

1 REPORTING PERIOD AND PREVIOUS CORRESPONDING PERIOD

Current Reporting Period:	**12 months to 31 December 2011**
Previous Corresponding Period:	12 months to 31 December 2010

2 RESULTS FOR ANNOUNCEMENT TO THE MARKET

		2011 ($000)	2010 ($000)	% Change
2.1	Revenue from ordinary activities	2,592	(7,207)	135.97%
2.2	Profit (loss) from ordinary activities after tax attributable to unitholders*	(95)	(11,612)	99.18%
2.3	Net profit (loss) for the period attributable to unitholders *	(95)	(11,612)	99.18%

*excludes loss attributable to minority interest

		2011		2010	
		Amount per security	Tax deferred	Amount per security	Tax deferred
2.4	Distributions:	-	-	-	-
	Final distribution	-	-	-	-
	Interim distribution	-	-	-	-

2.5 Record date for determining entitlements to the final 2011 distribution - 31 December 2011
No distribution was declared or paid for the year ended 31 December 2011.

3 NET TANGIBLE ASSETS PER SECURITY

NTA per security as at 31 December 2011 (Ex distribution)	**$0.83**
NTA per security as at 31 December 2010 (Ex distribution)	$1.40

Additional Appendix 4E disclosure requirements can be found in the notes to the financial report for the year ended 31 December 2011.

This report is based on the consolidated annual report which has been subject to a review by Ernst & Young.

Alternative Investment Trust

ARSN 112 129 218

Financial Report for the Year Ended 31 December 2011

Contents

DIRECTORS' REPORT

The Directors of The Trust Company (RE Services) Limited (the "Responsible Entity"), the Responsible Entity of Alternative Investment Trust ("AIT"), present their report together with the consolidated financial report of AIT and its controlled entities ('the Consolidated Entity') for the year ended 31 December 2011.

RESPONSIBLE ENTITY

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

Investment Manager

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

Directors of the Responsible Entity

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

Name
John Atkin
Vicki Allen (resigned 18 March 2011)
David Grbin
Michael Britton (resigned 23 December 2011)
Andrew Cannane (appointed 31 March 2011)

Sally Ascroft acted as an Alternate Director for Michael Britton for the period 31 March 2011 to 24 June 2011.

Rupert Smoker acted as an Alternate Director for John Atkin, David Grbin, and Andrew Cannane from 20 February 2012 to the date of this report.

PRINCIPAL ACTIVITIES

AIT is a registered managed investment scheme domiciled in Australia. AIT has exposure to a portfolio of absolute return funds via a swap agreement with Macquarie Bank Limited ("the Swap") and a single investment held outside the Swap, a 73% holding in the EBI Income Fund ("EBIIF").

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

AIT is currently in a process of asset realisation. During the year ended 31 December 2011, the Responsible Entity made two capital returns equal to $69.3 million (2010: nil). Since the appointment of Laxey, capital of $130.8 million has been returned to the unitholders of AIT as at 31 December 2011 (2010: $61.5 million).

DIRECTORS' REPORT (CONTINUED)

REVIEW AND RESULTS OF OPERATIONS

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

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

	Consolidated	
	Year ended 31 December 2011 $'000	Year ended 31 December 2010 $'000
Change in net assets attributable to unitholders	(282)	(12,076)

VALUE OF ASSETS AND UNITS ISSUED

The total value of the AIT's assets as at year end is $108,922,000 (2010: $184,511,000). The total number of units issued as at 31 December 2011 is 130,692,470 (2010: 130,692,470).

DISTRIBUTION/ RETURN OF CAPITAL

There were two returns of capital during 2011, with total capital returned during the year of $69.3 million (2010: nil).

RISK MANAGEMENT

The Investment Portfolio is in "run-off" and this process has been managed so as to provide the maximum amount of cash to unitholders over as short a time period as is deemed prudent and within the context of firstly having repaid the leverage facility provided by Macquarie Bank Limited. As such, the Investment Manager together with Macquarie Bank Limited monitors the liquidity profile and redemption terms of each investment. All holdings that may be redeemed are in the process of being redeemed, with some positions subject to lock ups, illiquid side pocket arrangements (a type of account used to separate illiquid assets from other more liquid investments) or a queuing process. Once an investment enters a side pocket account, only the present unitholders in the fund will be entitled to a share of it. Future investors will not receive a share of the proceeds in the event the asset's returns get realised. Full commentary on this process may be found in the Investment Manager's Report on page 11.

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.

DIRECTORS' REPORT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Direct assets

AIT's single directly held investment is in EBIIF. Given AIT's position as a 73% unitholder of EBIIF, EBIIF's assets and liabilities have been consolidated into AIT's assets and liabilities, respectively, for the purpose of these consolidated financial statements.

During the year EBIIF realised its single largest investment, Euroports. Following the sale of the Euroports investment, EBIIF primarily comprises cash, an investment in the Everest Babcock & Brown Income Fund and an investment in a Collateralised Debit Obligation ("CDO") currently valued at $nil. During the year ended 31 December 2011 AIT received distributions from EBIIF totalling $13.7 million (2010: $5.3 million). Laxey continues to be in regular contact with the manager of EBIIF, with a view to understanding the manager's plans for the wind-up of EBIIF.

(b) Liquidity and cash flow risk

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

(c) Market price risk

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

(d) Foreign exchange risk

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

(e) Interest rate risk

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

DIRECTORS' REPORT (CONTINUED)

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.

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.

INTERESTS OF DIRECTORS OF THE RESPONSIBLE ENTITY

The Directors of the Responsible Entity did not hold any interest in AIT at 31 December 2011 (2010: 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 2011, the Responsible Entity had no interest in AIT (2010: nil).

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

	Consolidated	
	2011	2010
	$	$
Responsible Entity fees	134,201	273,552
Investment Manager fees	1,525,941	1,578,893

DIRECTORS' REPORT (CONTINUED)

RESPONSIBLE ENTITY/INVESTMENT MANAGER FEES

The Responsible Entity charges 0.1% of gross assets per annum, subject to a minimum of $80,000 per annum as Responsible Entity fees.

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to the year end, the Responsible Entity determined to pay a distribution of 15 cents per unit, being a total of $19.6 million which was paid to unitholders on 20 January 2012.

Other than the above, there has not been any matter or circumstance that has arisen since 31 December 2011 that has significantly affected, or may significantly affect:

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

ENVIRONMENTAL REGULATION

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

NON-AUDIT SERVICES

There were no non-audit services performed by the auditor in the current financial year (2010: nil).

ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

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

AUDITOR'S INDEPENDENCE DECLARATION

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

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

David Grbin
Sydney, 27 February 2012

CORPORATE GOVERNANCE – RESPONSIBLE ENTITY

Background

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

The Responsible Entity is a wholly-owned subsidiary of The Trust Company Limited (ASX: TRU) ("**The Trust Company**"). The Responsible Entity is reliant on The Trust Company for access to adequate resources including directors, management, staff, functional support (such as company secretarial, responsible managers, legal, compliance and risk, finance) and financial resources. The Trust Company has at all times made such resources available to the Responsible Entity.

The Responsible Entity's role in operating the Trust is fundamentally to act in good faith and in the best interests of the Trust's unitholders in discharging its fiduciary duty. The Responsible Entity engages, manages and monitors appropriate service providers to assist in discharging its duties and obligations in relation to the Trust. 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.

The Responsible Entity abides by certain principles in discharging its duties and obligations. These principles include vigilance in ensuring compliance with the Trust's investment mandate; solvency of the Trust; scrutinising any related party transactions to ensure they are at arm's length and in the best interest of the Trust's unitholders; making full and frank disclosure to stakeholders in a timely way.

Corporate governance

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

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

The Responsible Entity addresses each of the Principles below in relation to the Schemes, including the Trust, for the year ended 31 December 2011. This corporate governance statement is current as at the date of the Trust's financial report.

Principle 1 – Lay solid foundations for management and oversight

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

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

CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)

Principle 1 – Lay solid foundations for management and oversight (continued)

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

Principle 2 – Structure the board to add value

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

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

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

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

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

Principle 3 – Promote ethical and responsible decision-making

The Responsible Entity, as part of The Trust Company, has both an Ethical Framework and a Code of Conduct within which it carries on its business and deals with its stakeholders. These apply to all directors and employees of The Trust Company, and the Responsible Entity. The Ethical Framework supports all aspects of the way The Trust Company, and the Responsible Entity, conducts its business and is embedded into the Trust Company's performance management process.

CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)

Principle 3 – Promote ethical and responsible decision-making (continued)

The Ethical Framework, guides and better aligns The Trust Company's cultural values with the decision making conducted at all levels within The Trust Company's business, and integrates this with The Trust Company's purpose, vision and goals as an organisation and as a valued member of the wider community.

The Trust Company's Diversity Policy covers the following areas: women in the workforce, age, cultural background and flexible working arrangements. The Trust Company embraces workforce diversity as a source of strength. It is approved by The Trust Company's Board and overseen by the People and Remuneration Committee. Measurable objective are being developed so that progress can be monitored. The workforce of The Trust Company currently comprises a wide range of ages, cultural backgrounds and gender across all roles. As an example, as at 31 January 2012 women comprised 57.4% of the workforce of The Trust Company and 35.5% of senior management roles.

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

Principle 4 – Safeguard integrity in financial reporting

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

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

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

Principle 5 – Make timely and balanced disclosure

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

CORPORATE GOVERNANCE – RESPONSIBLE ENTITY (CONTINUED)

Principle 6 – Respect the rights of unitholders

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

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

Principle 7 – Recognise and manage risk

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

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

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

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

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 The Trust Company. As noted above, the Responsible Entity's Directors, management and staff are provided by The Trust Company and are remunerated by The Trust Company and not by the Responsible Entity or any of the Schemes operated by the Responsible Entity.

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

Investment Manager's Report

Background

The investment portfolio of Alternative Investment Trust ("AIT") consists of exposure to a basket of absolute return funds via a swap agreement with Macquarie Bank ("the Swap"), as well as a single investment – held outside the Swap – in EBI Income Fund. 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. Laxey is a part of Isle of Man based Laxey Partners Ltd. Laxey Partners Ltd was founded in 1998 as a globally active management company and manages a range of assets and funds for institutional investors. As part of the new mandate, the name of the fund was changed from Everest, Babcock & Brown Alternative Investment Trust to Alternative Investment Trust. In order to make distributions from investments redeemed within the Swap, AIT was required to repay the Swap related debt. This repayment was completed in August 2010, and AIT has since been free to make distributions to unitholders once sufficient cash has built up.

Trust Facts

(Parent Entity as at 31 December 2011)

• Gross Assets (GA):	AUD 109m
• Net Assets (NA):	AUD 108m
• Market Cap:	AUD 83m
• Units in Issue:	131m
• NTA / unit:	0.8265 AUD
• Leverage Ratio (GA / NA):	1.01
• Debt outstanding:	USD 0
• % of GA in 'Side Pockets'	30%

Capital Returns per unit:

• Total 2011 Returns:	AUD 0.53
• Post Period End Return – January 2012	AUD 0.15
• Total Returns since Feb 2009:	AUD 1.15

Distributions to Unitholders:

During 2011, AIT made two distributions to unitholders and announced a third for 2012. The first, of AUD 0.38 per unit (or AUD 49.7m in total) was made in February 2011; the second, of AUD 0.15 per unit (or AUD 19.6m in total) was made in October 2011. On 22 December 2011, a further AUD 0.15 per unit (or AUD 19.6m in total) distribution was announced and this was paid to unitholders on 20 January 2012. This brings the total distributions made to unitholders since the change of mandate to AUD 150.4m (or AUD 1.15 per unit) – representing approximately 112% of AIT's market value as at 31 January 2009 (or 50% of its unaudited net assets at that date).

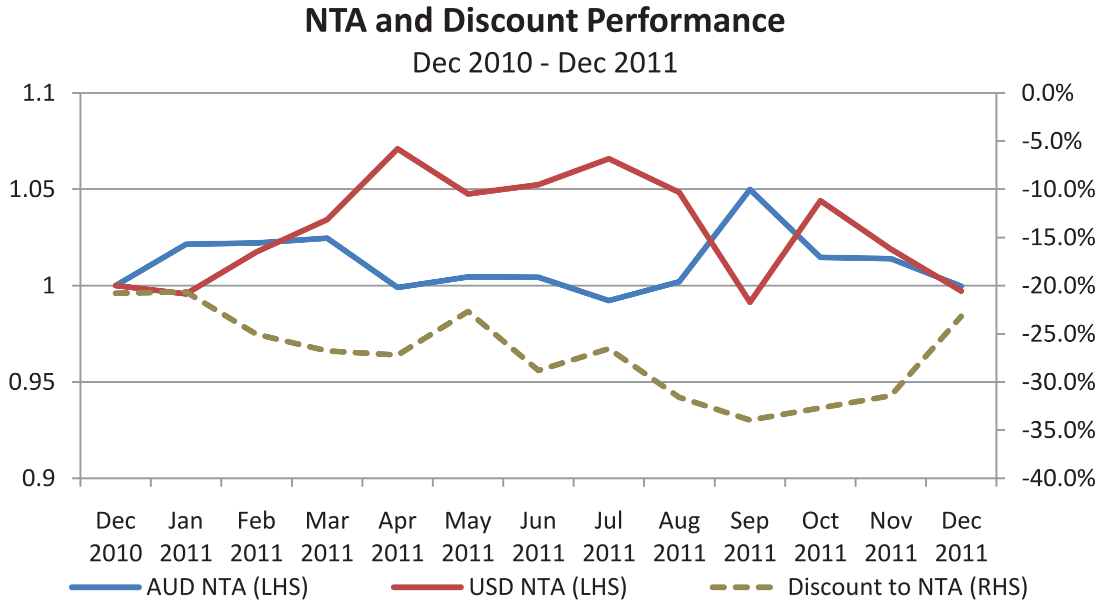
A further distribution is anticipated for the second quarter of 2012 using cash received post year end from December 2011 fund redemptions and some further redemption payments that are expected over the first few months of the year - see the Portfolio Review for details. Distributions remain a priority for the Trust and will continue to be made as soon as future redemption proceeds allow.

Trust Performance

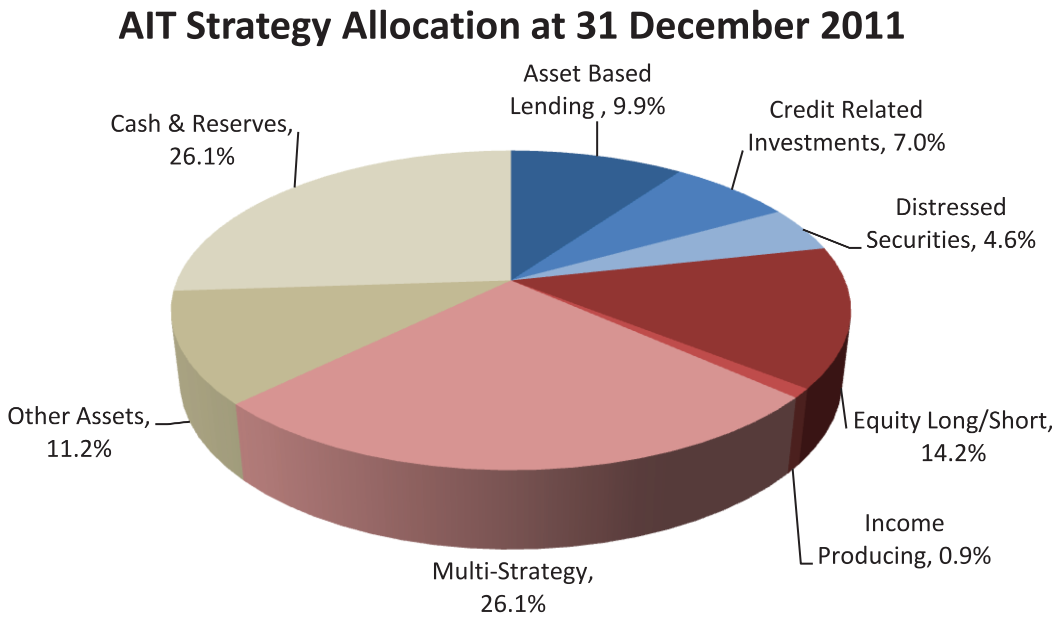
AIT's NTA fell from AUD 1.357 on 31 December 2010 to AUD 0.826 on 31 December 2011. Adjusting for the two returns of capital during the year, AIT's NTA performance was flat for 2011 – a result which matched or bettered many global equity markets for the year (though, of course, AIT's absolute return portfolio was not designed to track global equity markets). One of the most prominent factors in AIT's NTA performance has been the AUD-USD exchange rate; overall in 2011 however, there was only a slight change with the AUD falling slightly in value against the USD over the year (-0.23%). As can be seen from the performance comparison of NTA in USD and AUD terms, there was considerable fluctuation over the year.

At the end of December 2011, AIT's net currency exposure was 77.7% to USD reporting funds, assets and liabilities, and 22.3% to AUD reporting funds, assets and liabilities. Note that the value of the underlying funds may be affected by exchange rate movements in their investments; on a 'look through' basis, AIT's exposure to both the USD and AUD is overstated as there is no general policy amongst AIT's underlying managers to hedge currency exposures of underlying investments to the reporting currency.

The AUD and USD NTA performance (NTAs rebased to 1 at 31 December 2010, and adjusted for February and October 2011 returns of capital, unaudited NTAs used for January to November), together with the discount performance of AIT from 31 December 2010 to 31 December 2011 is given below. AIT's unit price to NTA discount gradually widened for the first three quarters of the 2011 before tightening to levels near those at the start of the year. By way of comparison, AIT was trading at discounts of over 50% in late 2008 / early 2009.



Portfolio Review



Cash and Other Assets:

With the completion of debt repayment and the termination of the secondary BNP swap, AIT now has free use of its cash (less reserves). The above graph gives AIT's cash position as 26.1% of gross assets. This includes the AUD 19.6m for the January 2012 distribution. 'Other Assets' largely consists of receivables; this is cash from redeemed funds that has yet to come through to AIT's accounts. At the end of December there was a significantly greater than usual level of Other Assets – primarily due to a part redemption of the Drawbridge holdings (see below).

AIT's Top Holdings as at 31 December 2011:

FUND NAME	STRATEGY	% OF GROSS ASSETS
ESL Investments	Equity Long/Short	14.13%
Drawbridge Special Opportunities	Asset Based Lending	9.87%
TPG-Axon Partners Offshore Ltd	Multi-Strategy	5.69%
Eton Park Overseas Fund Ltd	Multi-Strategy	4.27%
Everest Absolute Return Fund	Multi-Strategy	3.70%
GSO Special Situations Overseas	Credit Related Investments	2.99%
Och-Ziff Global Special Investments	Multi-Strategy	2.69%
Cerberus International Ltd	Distressed Securities	2.60%
Marathon Special Opportunity Fund	Credit Related Investments	2.29%
Perry Partners International	Multi-Strategy	2.19%
TOTAL		50.42%

The above Top Portfolio Holdings constitute just over half of AIT's portfolio and all are held within the Macquarie Swap. The remainder of the portfolio consists of numerous smaller investments with varying degrees of liquidity. On behalf of AIT, Laxey maintains contact with the fund managers of each of the investments in order to better understand AIT's underlying exposure and its liquidity and risk profiles.

Details of AIT's Top Holdings:

ESL Investments (14.13% of Gross Assets): ESL has a number of large equity investments in retail companies, all primarily based in North America. These investments include AutoZone, a retailer of automotive parts and accessories, Sears, the department store, and AutoNation, which sells, finances and services new and used vehicles as well as smaller holdings in Wells Fargo, Gap, and CIT Group. This position has a fixed redemption date at the end of 2012.

Drawbridge (9.87% 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. AIT's funds are in liquidation, and AIT receives regular payments from Drawbridge as the portfolio is wound down. The majority of the assets are held to maturity and Laxey expects AIT to receive the bulk of the current NAV over the next 18 months. For the period under review, AIT received USD 23.3m from its liquidating Drawbridge positions. In November 2011, AIT took advantage of an opportunity to part redeem some of its Drawbridge holdings with specific assets sold at an independently assessed fair value. This compares with previous offers rejected by AIT to exit the position at significant discounts to NAV. This brought in approximately USD 16m with cash received by AIT between late December 2011 and early February 2012.

TPG-Axon (5.69% 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 seven separate side pocket investments in a range of sectors and countries. A number of these investments should be exited in 2012. Over 2011, TPG returned USD 4.2m to AIT.

Eton Park Overseas Fund (4.27% of Gross Assets): Eton Park Overseas Fund's objective is to deliver superior risk-adjusted returns over a multi-year period with an absolute return orientation. Equity long/short and credit-related strategies are the two main areas of investment for this fund; although it also has exposure to event orientated investments, as well as investments in derivatives and special investments. The fund invests globally and has no set allocation to any region; though North America is a significant area of investment currently. AIT still has some exposure to the main fund which is due to redeem in 2012 but the majority of the exposure is to side pocket positions. Across AIT's holdings there are 22 of these side pocket positions. Over 2011, Eton Park returned USD 2.2m to AIT.

Everest Absolute Return Fund (3.70% of Gross Assets): The Everest Absolute Return Fund is invested in a diversified portfolio of absolute return funds. As with AIT itself, the funds held by EARF are spread across a range of investment managers and EARF's strategy exposure includes long/short equity, distressed securities, multi-strategy, managed futures, global macro and arbitrage. The fund was restructured towards the end of 2008. It is currently being managed with a view to returning cash to unitholders. For the period under review, EARF returned AUD 1m to AIT and a further return of approximately AUD 1.7m is expected during Q1 2012.

GSO Special Situations (2.99% of Gross Assets): GSO is an alternative asset manager specializing in credit related investment. It manages a multi-strategy credit hedge fund, a mezzanine fund, a senior debt fund and various CLO vehicles. In March 2008, Blackstone acquired GSO Capital Partners LP and merged its own Credit Investment operation into GSO. AIT's investment in the Special Situations fund sits in the multi-strategy hedge fund; the main investment has now been redeemed, and the remaining investments – largely in private equity investments – are side-pocketed. Over 2011, GSO returned USD 2.6m to AIT. Though it cannot be guaranteed, from discussions with the manager, Laxey expect that a significant portion of the remaining fund will redeem over the course of 2012.

Och-Ziff Global Special Investments (2.69% of Gross Assets): OZ Global Special Investments is a multi-strategy fund with a bias toward making so-called 'special investments' – taking investment positions that may be highly illiquid with a view to medium to long term returns. This fund's geographic focus is primarily though not exclusively toward developed markets and it invests across a variety of sectors. As the bulk of the liquid portion of the fund has already been returned to AIT, the remaining exposure is to a large range of these special investments. As with all side pocket positions, there is no fixed redemption profile though a number of investments are expected to exit over the course of 2012.

Cerberus International (2.6% of Gross Assets): Cerberus predominantly makes investments in distressed securities, including those facing financial and operating difficulties and they have 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 roughly on a quarterly basis. The amount received is dependent upon underlying liquidations. Although only a small amount was returned to AIT in 2011, the fund's performance for the year was approximately +10%.

Marathon Special Opportunity Fund (2.29% of Gross Assets): Redemption proceeds for the majority of Marathon Special Opportunity Fund were received as expected at the beginning of 2011 and AIT is now solely exposed to a number of remainder side pocket positions. A total of USD 6.8m was received from Marathon funds in 2011.

Perry Partners (2.19% of Gross Assets): Perry Partners is a multi-strategy fund with a principal focus on opportunity and event driven investing in a range of sectors across both credit and equity. The exposure here is mainly to side pocket positions.

Further Updates:

In October 2011, following a successful negotiation with Euroports shareholders and management, **EBI Income Fund (EBIIF)**, agreed to an early redemption of its Euroports mezzanine debt position at – in AUD terms – a 5% discount to its carrying value (based on NPV) or a 20% discount to its face value plus accrued interest to date. In Laxey's opinion, the agreed exit price was in the best interests of unitholders. Although done at a small discount, the deal allowed for a full exit of a position that was not expected to pay out any cash until its maturity in 2016 and which had not insignificant default risk. In addition, this reduced the fees which would have been payable to EBIIF's manager to continue running the fund. This debt position effectively accounted for the vast majority of EBIIF's investment assets, and as such, EBIIF was able to return the large portion of its NAV to unitholders. EBIIF went from AIT's third largest position in December 2010 at 8.5% of Gross Assets to one of its smaller holdings in December 2011 at 0.9% of Gross Assets. A total of AUD 13.7m was received from EBIIF over a series of payments in 2011.

As former Everest funds, both **EBIIF** and **EARF** have advised AIT that Everest Capital Limited ("ECL", now known as Redleaf Capital Limited) has notified both funds that it may seek to exercise certain indemnity rights against the funds' assets that it has in relation to liabilities properly incurred by it arising out of events that took place during the period in which it was trustee of the funds. The current trustee of these funds, One Investment Group ("OIG") has a fiduciary obligation toward ECL in relation to those rights, which if they do arise, rank ahead of unitholders' claims. Neither the quantum nor likelihood of any claim arising from these rights can be reliably estimated but both funds have provisioned a set amount based on discussions with their advisors and ECL. Both funds have been able to make distributions to unitholders and as a result AIT's exposure to such claims is small. OIG continue to review the situation and Laxey keep in regular contact to monitor it.

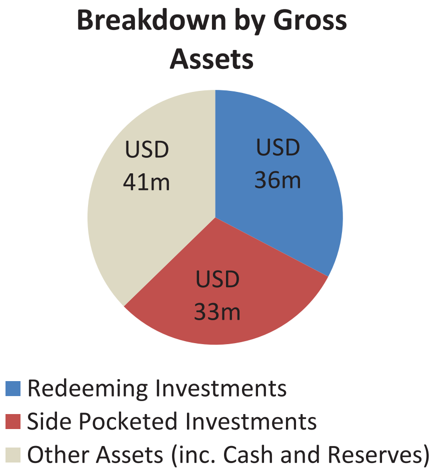
Liquidity Profile and Side Pocket Positions

AIT is debt free and all of the underlying funds have received redemption requests. As mentioned above, distributions were made from redemption proceeds (including cash returned from the wind up of the secondary swap agreement with BNP) in February and October and a further distribution was paid out in January 2012. During the year, none of AIT's funds have put up restrictions on withdrawal beyond those already in place, and proceeds have come through as expected. Furthermore, a number of corporate actions took place during the second half of 2011 that significantly increased the level of redemptions received for the year. With the majority of fixed redemption date funds redeemed, AIT is increasingly exposed to funds undergoing full or significant liquidation and side pocket positions. This means that, at best, redemption proceeds follow indicative rather than firm timeframes and are dependent on the underlying managers realising individual illiquid investments.

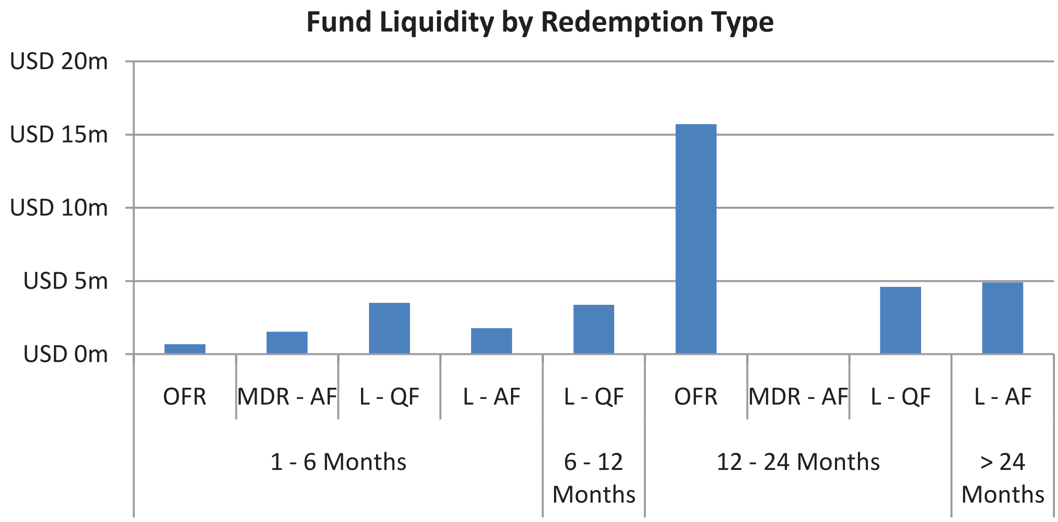
Liquidating funds are those which, because of large volumes of redemption requests, were forced to close, and realise assets, distributing proceeds to investors as they become available. This dependence on the realisation of assets such as these makes distributions less certain. Laxey classifies these 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, unitholders must wait for the manager to realise this asset before receiving cash back. Although such positions are taken with a specific exit strategy in mind, the liquidity date is often highly unpredictable, and 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 however, Laxey does 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.

30% of AIT's assets are in side pocket investments. If the AUD 19.6m January 2012 distribution is excluded, that number rises to 36%. Many of these positions will be able to make distributions in the near term, but given the nature of their liquidity they are classed separately to the main funds for liquidity purposes. The chart to the right illustrates this division.



The remainder of AIT's non-cash exposure (33% of gross assets or 39% excluding the January distribution payment) is broken down in the following graph:



Glossary

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

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

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

Following EBIIF's negotiation to exit its main investment and its follow on return of cash to unitholders, only 6% of AIT's gross assets (versus 12% at December 2010) are classed as liquidating with an ad hoc flow of distributions - bringing AIT's total exposure to assets with difficult to determine liquidity to 34% of gross assets (or 42% excluding the January 2012 distribution payment).

This leaves 28% of current gross assets exposed to funds with a – relatively – predictable liquidity timetable. Although only a small amount is expected to be returned by December 2012, a large redemption is expected for early 2013 and the entire 28% is expected to have redeemed within two years. Note none of these figures take account for possible early exits or potential future gates that managers may impose if there is a a large outflow of investors from a particular fund. Hence, there is a chance that some positions may be redeemed at an earlier (or later) than expected date.

Outlook

Laxey expect AIT to pay another distribution during the second quarter of 2012. Beyond this, distributions remain a priority for the Trust as redemption proceeds allow and announcements will be made in due course.

Signed by Colin Kingsnorth
Laxey Partners (UK) Limited

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

In relation to our audit of the financial report of Alternative Investment Trust for the year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
27 February 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Consolidated Year ended 31 December 2011 $'000	Year ended 31 December 2010 $'000
Investment income			
Net gains/(losses) on financial instruments held at fair value through profit or loss	4	2,286	(4,337)
Net gains/(losses) on loans and receivables		(691)	-
Interest income		1,114	696
Foreign exchange gain/(loss) on loans and receivables		(200)	(2,699)
Other foreign exchange gains and losses		79	(1,967)
Other investment income	3	4	1,100
Total investment income/(loss)		2,592	(7,207)
Expenses			
Responsible Entity fees	15	134	274
Management fees	15	1,526	1,579
Other operating expenses	3	1,214	2,797
Total operating expenses		2,874	4,650
Operating profit/(loss) attributable to unitholders		(282)	(11,857)
Financing costs attributable to unitholders			
Interest expense		-	(219)
Change in net assets attributable to unitholders		(282)	(12,076)
Change in net assets attributable to:			
Unitholders		95	11,612
Minority interest		187	464
Total Comprehensive Income		**-**	**-**
		Cents	Cents
Earnings per share for profit from continuing operations			
Basic and diluted earnings per unit	5	(0.07)	(8.87)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Consolidated As at 31 December 2011 $'000	31 December 2010 $'000
Assets			
Cash and cash equivalents	9	19,983	12,653
Receivables	10	55	982
Financial assets at fair value through profit or loss	7	88,884	158,977
Loans and receivables	6	-	11,899
Total assets		108,922	184,511
Liabilities			
Payables	11	534	1,491
Total liabilities (excluding net assets attributable to unitholders)		534	1,491
Net assets attributable to unitholders		108,388	183,020
Represented by:			
Units on issue		492,286	561,548
Undistributed losses to unitholders		(384,272)	(384,177)
Minority interest		374	5,649
		108,388	183,020

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

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

	Consolidated			
	Units on issue $'000	Undistributed income/(loss) $'000	Minority interest $'000	Total $'000
At 1 January 2010	561,548	(372,565)	8,092	197,075
Return of capital	-	-	(1,979)	(1,979)
Profit/(loss) for the year attributable to unitholders	-	(11,612)	(464)	(12,076)
As at 31 December 2010	**561,548**	**(384,177)**	**5,649**	**183,020**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Consolidated Year ended 31 December 2011 $'000	31 December 2010 $'000
Cash flows from operating activities			
Interest received		1,994	1,103
Other income received		13	64
Payment of Management, Responsible Entity fees		(2,410)	(4,785)
Other expenses paid		(1,421)	-
Interest paid		-	(232)
GST received		38	105
Net cash used in operating activities	8	**(1,786)**	**(3,745)**
Cash flows from investing activities			
Proceeds from sale of investments		83,517	44,858
Net cash provided by investing activities		**83,517**	**44,858**
Cash flows from financing activities			
Cash outflow through return of capital		(74,350)	(1,979)
Repayments of borrowings		-	(41,330)
Net cash used in financing activities		**(74,350)**	**(43,309)**
Net increase/(decrease)in cash and cash equivalents		7,381	(2,196)
Cash and cash equivalents at beginning of the year		12,653	14,161
Effects of foreign currency exchange rate changes on cash and cash equivalents		(51)	688
Cash and cash equivalents at the end of the year	9	**19,983**	**12,653**

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

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

Alternative Investment Trust (the "Trust" or "AIT") is an Australian registered managed investment scheme which comprises the entities controlled by AIT (known as "the Consolidated Entity") and is also listed on the Australian Securities Exchange (ASX code AIQ). AIT was constituted on 7 April 2005.

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

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

The financial statements were authorised for issue by the Directors on 27 February 2012.

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) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the entities controlled by AIT at 31 December 2011, and the results of those controlled entities for the year then ended.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Foreign currency translation

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

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

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

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

(d) Cash and cash equivalents

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

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

(e) Revenue

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

Dividends are recognised when the right to receive payment is established.

(f) Payables

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

(g) Receivables

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

(h) Net assets attributable to unitholders

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

Amounts payable to unitholders are classified as a financial liability.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Loans and receivables

Subordinated debt assets are classified as Loans and receivables and are measured initially at fair value plus transaction costs.

They are subsequently amortised using the effective interest rate method less impairment losses, if any. Such assets are reviewed at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable to determine whether there is objective evidence of impairment.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, AIT estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and amounts paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

(j) Financial assets at fair value through profit or loss

The Total Return Swap and investment in unlisted unit trusts are classified as financial assets at fair value through profit or loss and are measured at fair value.

Swap receivable (Underlying Investment Portfolio)

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

Units in controlled entities and unlisted unit trusts

Investments in controlled entities are recorded at the net asset value, which represents the fair value of the underlying investments. Movements in the fair value are recognised in the Statement of Comprehensive Income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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 the Trust constitution requires the distribution of the full amount of the net income of AIT to the unitholders each period.

(l) 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.

(m) Distributions

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

(n) 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.

(o) 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.

(p) 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:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Fair value of financial instruments (continued)

(i) Level 1 – valuations based on quoted prices in active markets for identical assets and liabilities. An active market for the financial instrument is a market in which transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis, as well as at the reporting date.

(ii) Level 2 – valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Observable inputs are other than Level 1 prices such as quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in non-active markets; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

(iii) Level 3 – valuations based on inputs that are unobservable and significant to the overall fair value measurement inputs (including AIT's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is a market based measure considered from the perspective of market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Responsible Entity's own assumptions are set to reflect those that the market participants would use in pricing the asset or liability at the measurement date. The Responsible Entity uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for some instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3. The fair value hierarchy of AIT's financial assets has been disclosed in note 7.

(q) Accounting standards not previously applied

The following new and revised Standards and Interpretations have been adopted by the Trust in this financial report. Their adoption has not had any significant impact on the amounts reported in the financial statements.

(i) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards – In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

(ii) AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets – In November 2010, the AASB issued AASB 2010-6 Disclosures on Transfers of Financial Assets which amends AASB 1 First-time Adoption of Australian Accounting and AASB 7 Financial Instruments which introduced additional disclosures in respect of risk exposures arising from transferred financial assets primarily from selling, factoring, securitising, lending or otherwise transferring financial assets to other parties.

Since 1 January 2011, the Trust has adopted all Australian Accounting Standards and Interpretations which were mandatory for annual reporting periods beginning on or after 1 January 2011. Adoption of these standards and interpretations has not had a material effect on the financial position or performance of the Trust.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Accounting standards and interpretations that have been issued or amended but are not yet effective have not been adopted by the Trust for the annual reporting period ended 31 December 2011. The Responsible Entity is yet to assess the impact of these standards and interpretations but those likely to impact the Trust are:

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.

AASB 10 'Consolidated Financial Statements' – AASB 10 requires a parent to present consolidated financial statements as those of a single economic entity, replacing the previously contained AASB 127 'Consolidated and Separate Financial Statements' and INT-112 'Consolidation – Special Purpose Entities'. The Standard identified the principles of controls, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. The revised accounting standard is applicable for accounting periods beginning on or after 1 January 2013.

AASB 12 'Disclosure of Interests in Other Entities' – AASB 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The revised accounting standard is applicable for accounting periods beginning on or after 1 January 2013.

AASB 13 'Fair Value Measurement' and 'AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13' – AASB 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The revised accounting standard is applicable for accounting periods beginning on or after 1 January 2013.

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

(s) 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.

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.

2. SEGMENT INFORMATION (CONTINUED)

The following is an analysis of AIT's investment revenue/(losses) by reportable operating segment:

	Consolidated Year ended 31 December 2011 $'000	31 December 2010 $'000
Operating segment		
Investment management:		
Attributable to Australia	2,946	(6,031)
Attributable to foreign countries	(354)	(1,176)
Total investment income/(loss)	2,592	(7,207)

3. OTHER INCOME AND EXPENSES

	Consolidated Year ended 31 December 2011 $'000	31 December 2010 $'000
Other expenses		
Professional fees	556	1,977
Fund administration and custody expenses	465	579
Other general and administrative expenses	93	141
Auditor's remuneration	100	100
Total other operating expenses	1,214	2,797
Other investment income/(expense)		
Impairment income/(expense)	-	1,108
Other investment income/(expense)	4	(8)
	4	1,100

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

	Consolidated Year ended 31 December 2011 $'000	31 December 2010 $'000
Financial instruments		
Fair value gains/(losses) on Total Return Swap	2,555	(4,268)
Net gains/(losses) on direct investments designated as fair value through profit or loss	(259)	(69)
Net gain/(losses) on forward designated as fair value through profit or loss	(10)	-
Total net gains/(losses) on financial instruments held at fair value through profit or loss	2,286	(4,337)

5. EARNINGS PER UNIT

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

	Consolidated Year ended 31 December 2011 $'000	31 December 2010 $'000
Profit/(loss) attributable to unitholders ($'000)	(95)	(11,612)
Basic and diluted earnings per unit in cents	(0.07)	(8.87)
Weighted average number of units on issue ('000)	130,692	130,692

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

6. LOANS AND RECEIVABLES

	Consolidated As at 31 December 2011 $'000	31 December 2010 $'000
Loans and receivables	-	26,177
Less provision for impairment	-	(14,278)
Total loans and receivables	-	11,899

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

	Consolidated As at 31 December 2011 $'000	31 December 2010 $'000
Financial assets		
Underlying Investment Portfolio	87,833	152,569
Unlisted managed fund	1,051	6,408
Total financial assets held at fair value through profit or loss	88,884	158,977

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

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

The following fair value hierarchy table presents information about AIT's financial assets measured at fair value on a recurring basis as at 31 December 2011 and 31 December 2010.

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

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

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

	Consolidated As at 31 December 2010			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Underlying Investment Portfolio	-	-	152,569	152,569
Units in Unlisted Managed Fund	-	-	6,408	6,408
Total financial assets held at fair value through profit or loss	-	-	158,977	158,977

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

	Units in Managed Funds	**Underlying Investment Portfolio**	**Total**
At 1 January 2010	9,771	201,695	211,466
Net gain/(loss)	(69)	(4,268)	(4,337)
Return of Capital	(3,294)	-	(3,294)
Sales	-	(44,858)	(44,858)
As at 31 December 2010	**6,408**	**152,569**	**158,977**

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

	Consolidated Year ended 31 December 2011 $'000	31 December 2010 $'000
Reconciliation of profit/(loss) to net cash used in operating activities		
Change in net assets attributable to unitholders	(282)	(12,076)
Impairment income	-	(1,108)
Fair value (gain)/loss on Total Return Swap	(2,555)	4,268
Fair value (gain)/loss on direct financial assets	259	69
Net (gain)/loss on forwards	10	-
Net (gain)/loss on loans and receivables	691	-
Foreign exchange (gain)/loss	121	4,666
(Increase)/decrease in receivables	927	557
(Decrease)/increase in payables	(957)	(121)
Net cash used in operating activities	(1,786)	(3,745)

9. CASH AND CASH EQUIVALENTS

	Consolidated As at 31 December 2011 $'000	31 December 2010 $'000
Domestic cash at bank	19,824	8,050
Foreign currency holdings	159	4,603
Total cash and cash equivalents	19,983	12,653

10. RECEIVABLES

	Consolidated As at 31 December 2011 $'000	31 December 2010 $'000
Interest receivable	-	880
GST recoverable	33	71
Other receivables	22	31
Total receivables	55	982

No loss has been recognised in respect of receivables during the year ended 31 December 2011 (2010: nil).

11. PAYABLES

	Consolidated As at 31 December 2011 $'000	31 December 2010 $'000
Amounts owing to Responsible Entity	20	33
Management fees	59	796
Fund administration and custody expenses	88	68
Legal expenses	8	327
Other payables	359	267
Total payables	534	1,491

12. UNITS ON ISSUE

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

	Parent As at			
	31 December 2011 No.	31 December 2010 No.	**31 December 2011 $'000**	31 December 2010 $'000
Opening balance	130,692,470	130,692,470	177,371	188,983
Return of capital	-	-	(69,262)	-
Change in net assets attributable to unitholders	-	-	(95)	(11,612)
Closing balance	130,692,470	130,692,470	108,014	177,371

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES

The initial purpose of the Investment Portfolio was to meet AIT's investment objective of attractive risk adjusted, absolute returns over the medium to long term and in all market conditions. The strategy for achieving this objective focused on obtaining exposure to a portfolio of leading international absolute return funds (Underlying Investment Portfolio) and select subordinated debt and equity company investments. The former 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.

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(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.

AIT currently has a single directly held investment - in EBI Income Fund ("EBIIF"), of which AIT holds 73%. With effect from 30 June 2010, One Investment Group has assumed the Trustee responsibilities of EBIIF. Until this date, the Trustee was Everest Capital Limited. The Trustee provides NAV calculations and portfolio reports to AIT in the same manner as the funds to which AIT has exposure via the Macquarie Swap. EBIIF is formally revalued semi-annually in June and December and Laxey maintains regular contact with the manager in order to understand the nature of the portfolio, its liquidity and the associated risk.

During the year EBIIF realised its single largest investment, Euroports. Following the sale of the Euroports investment, EBIIF primarily comprises cash, an investment in the Everest Babcock & Brown Income Fund and an investment in a CDO currently valued at $nil. During the year ended 31 December 2011 AIT received distributions from EBIIF totalling $13.7 million (2010: $5.3 million). Laxey continues to be in regular contact with the manager of EBIIF, with a view to understanding the manager's plans for the wind-up of EBIIF.

Risk concentrations of credit risk exposure

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

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

The credit exposure of the financial assets designated as fair value through profit or loss in Australia represents the intrinsic value of the Total Return Swap of $87,832,822 (2010: $152,568,821), being the fair value of the Underlying Investment Portfolio. This credit risk is mitigated by the fact that assets with a total value of $111,805,541 (2010: $ 191,486,863) are held by third party custodians and subject to first ranking changes in favour of the Responsible Entity.

2010 Consolidated	**Australia A$'000**	**US A$'000**	**Euros A$'000**	**Total A$'000**
Cash and cash equivalents	8,050	4,603	-	12,653
Receivables	110	-	872	982
Financial assets at fair value through profit or loss	158,977	-	-	158,977
Loans and receivables	1,031	-	10,868	11,899
Total	168,168	4,603	11,740	184,511

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(a) Credit risk (continued)

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

	2011 A$'000	2010 A$'000
Financial services	1,051	6,408
Ports	-	10,868
Oil and gas	-	1,031
Total	1,051	18,307

(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 2011 to the contractual maturity date. The amounts in the table are contractual undiscounted cash flows. Balances due equal their carrying balances, as the impact of discounting is not 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 is being conducted on the net assets attributable to unitholders.

	Less than 1 month $'000	**1-12 months $'000**	**Greater than 12 months $'000**	**Total $'000**
Consolidated				
At 31 December 2011				
Payables	534	-	-	534
Total financial liabilities	534	-	-	534
At 31 December 2010				
Payables	1,491	-	-	1,491
Total financial liabilities	1,491	-	-	1,491

Everest Capital Limited ("ECL") the former Trustee of EBIIF and Everest Babcock & Brown Income Fund ("EBBIF"), which are direct investments of the consolidated entity, has advised One Investment Group Limited ("OIG"), the current trustee of EBIIF and EBBIF, that they may seek to recover costs from both EBIIF and EBBIF in relation to ongoing legal action against it. The Responsible Entity has obtained legal advice that no valid claim is likely to arise. Furthermore, at this stage ECL has only put OIG on notice that they may make a claim. OIG has advised the Responsible Entity that it has not received specific details about the timeframe, amount, or other details about the potential claim.

The Responsible Entity advises that the claim is limited to the assets of EBIIF and EBBIF and not on AIT itself.

The impacts of any claim on AIT are unlikely to be material in terms of a potential reduction in the value of AIT's assets but are likely to impact on time taken by OIG to liquidate both EBIIF and EBBIF.

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(c) Market risk

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

(i) Foreign exchange risk

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

The following table indicates the currencies to which AIT had significant exposure at 31 December 2011 on its monetary assets and liabilities highlighting AIT's net exposure to foreign exchange risk.

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

At 31 December 2011, had the exchange rate of the US dollar and other currencies increased or decreased by 10% with all other variables held constant, the impact on the net assets attributable to unitholders and on profit or loss is reflected in the table below.

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

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(i) Foreign exchange risk (continued)

Consolidated 31 December 2010	**Australian Dollars A$'000**	**US Dollars A$'000**	**Euros A$'000**	**Total A$'000**
Assets				
Cash and cash equivalents	8,050	4,603	-	12,653
Receivables	110	-	872	982
Financial assets designated as fair value through profit or loss	6,408	152,569	-	158,977
Loans and receivables	-	1,031	10,868	11,899
Total assets	14,568	158,203	11,740	184,511
Liabilities				
Payables	1,303	188	-	1,491
Total liabilities (excluding net assets attributable to unitholders)	1,303	188	-	1,491
Net asset attributable to unitholders	13,265	158,015	11,740	183,020
Total foreign currency exposure	-	158,015	11,740	169,755

Consolidated 31 December 2010	**Australian Dollars A$'000**	**US Dollars A$'000**	**Euros A$'000**	**Total A$'000**
Increase of 10%	-	15,802	-	15,802
Decrease of 10%	-	(15,802)	-	(15,802)

(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.

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(ii) Interest rate risk (continued)

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

Consolidated 31 December 2010	Floating Interest rate $'000	Fixed interest rate 1-12 months $'000	Greater than 12 months $'000	Non-interest bearing $'000	Total $'000
Assets					
Cash and cash equivalents	12,653	-	-	-	12,653
Receivables	-	-	-	982	982
Financial assets designated as fair value through profit or loss	-	-	-	158,977	158,977
Loans and receivables	-	-	11,899	-	11,899
Total assets	12,653	-	11,899	159,959	184,511
Liabilities					
Payables	-	-	-	1,491	1,491
Total liabilities (excluding net assets attributable to unitholders)	-	-	-	1,491	1,491
Net exposure	12,653	-	11,899	158,468	183,020

AIT is not exposed to significant interest rate risk as it does not hold significant balances held in 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.

13. FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (CONTINUED)

(iii) Equity price risk

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

As at 31 December 2011, 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 $4,444,200 (2010: $7,948,850). A negative sensitivity would have an equal but opposite effect.

Investment and leverage guidelines

AIT is no longer permitted to:

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

Investment strategy

Laxey's investment strategy, on behalf of the Responsible Entity, is to undertake an orderly wind down of the AIT portfolio.

Capital management

AIT's objective when managing capital is to continue to implement an orderly realisation of the Trust's assets and return capital to investors.

14. 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 7. 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).

14. 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 4 respectively.

(b) Foreign exchange

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

15. RELATED PARTY TRANSACTIONS

Key management personnel

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

Name
John Atkin
Vicki Allen (resigned 18 March 2011)
David Grbin
Michael Britton (resigned 23 December 2011)
Andrew Cannane (appointed 31 March 2011)

Sally Ascroft acted as an Alternate Director for Michael Britton for the period 31 March 2011 to 24 June 2011.

Rupert Smoker acted as an Alternate Director for John Atkin, David Grbin, and Andrew Cannane from 20 February 2012 to the date of this report.

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 gross assets per annum, subject to a minimum of $80,000 per annum as Responsible Entity fees.

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

	Consolidated As at	
	31 December 2011	31 December 2010
Fees paid to the Responsible Entity	134,201	273,552
Fees paid to Laxey	1,525,941	1,578,893
Custody fees paid to The Trust Company Limited	27,560	32,498
	1,687,702	1,884,943

15. RELATED PARTY TRANSACTIONS (CONTINUED)

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

As of 31 December 2011, the Consolidated Entity had a total of $86,491 (2010: 810,484) 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 (2010: Nil).

16. SUBSIDIARIES

Subsidiary:	EBI Income Fund
Country of Incorporation:	Australia
Acquisition date:	6 December 2006
Percentage owned:	73% (2010: 73%)

17. AUDITOR'S REMUNERATION

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

	Consolidated Year ended	
	31 December 2011	31 December 2010
During the year the auditor of AIT earned the following remuneration:		
Ernst & Young		
Audit and review of financial statements	100,000	100,000
Other assurance services	11,000	**-**
Total remuneration	111,000	100,000

The Responsible Entity's Directors have overseen the relationship with the external auditors of AIT since 5 February 2009. Other non-audit services would not normally be provided by the external audit firm. However, if for special reasons such services were to be proposed, the Responsible Entity would review the proposal to ensure it did not affect the independence of the external audit function.

18. SUMMARY PARENT INFORMATION

	Parent Year ended **31 December 2011 $'000**	31 December 2010 $'000
Assets		
Current assets	19,664	11,010
Financial assets at fair value through profit or loss	88,834	167,791
Total Assets	**108,498**	**178,801**
Liabilities		
Current liabilities (excluding net assets attributable to unitholders)	484	1,430
Net assets attributable to unitholders	108,014	177,371
Total liabilities	**108,498**	**178,801**
Change in net assets attributable to unitholders	(95)	(11,612)

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

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

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

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

There are no guarantees entered into by the parent entity relating to debts of subsidiaries (2010: nil). As disclosed in Note 19 to the financial statements, there are no contingent liabilities or commitments of the parent entity at the reporting date (2010: nil).

19. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

There are no commitments or contingencies as at 31 December 2011 (2010: nil).

20. SUBSEQUENT EVENTS

Subsequent to the year end, the Responsible Entity determined to pay a distribution for AIT of 15 cents per unit, being a total of $19.6 million which was paid to unitholders on 20 January 2012.

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

DIRECTORS' DECLARATION

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

(a) the financial statements and notes, set out on pages 20 to 43, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Consolidated Entity as at 31 December 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards, other mandatory professional reporting requirements and the Corporations Regulations 2001.

(b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable; and

(c) the financial statements and notes have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board as disclosed in Note 1.

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

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

David Grbin
Director
Sydney, 27 February 2012

Ernst & Young

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

Report on the Financial Report

We have audited the accompanying financial report of Alternative Investment Trust (the 'Trust'), which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in net assets attributable to unitholders and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Trust and the entities it controlled at the year's end or from time to time during the financial year.

Responsible Entity's responsibility for the Financial Report

The directors of 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

ERNST & YOUNG

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 company 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 consolidated entity's financial position as at 31 December 2011 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

Ernst & Young

R Da Silva

Rita Da Silva
Partner
Sydney
27 February 2012

UNITHOLDER INFORMATION

The following unitholder information is provided as at 14 February 2012.

A. Distribution of unitholders

Size of holding	Number of unitholders	% of units issued
Ranges		
1 to 1,000	709	0.31%
1,001 to 5,000	423	0.91%
5,001 to 10,000	164	0.98%
10,001 to 100,000	227	4.19%
100,001 and Over	21	93.61%
Total	**1,544**	**100%**

B. 20 Largest unitholders

Rank	Name of unitholder	Number of units	% of units issued
1	NATIONAL NOMINEES LIMITED	52,306,421	40.02%
2	HSBC CUSTODY NOMINEES	30,743,474	23.52%
3	CITICORP NOMINEES PTY LIMITED	16,912,528	12.94%
4	HSBC CUSTODY NOMINEES	5,679,367	4.35%
5	HSBC CUSTODY NOMINEES	3,222,213	2.47%
6	COGENT NOMINEES PTY LIMITED	3,054,679	2.34%
7	UBS NOMINEES PTY LTD	2,347,858	1.80%
8	J P MORGAN NOMINEES AUSTRALIA	1,907,727	1.46%
9	UBS WEALTH MANAGEMENT	1,646,251	1.26%
10	ABN AMRO CLEARING SYDNEY	1,167,561	0.89%
11	CHRISWALL HOLDINGS PTY LTD	1,000,000	0.77%
12	M F CUSTODIANS LTD	450,388	0.34%
13	HSBC CUSTODY NOMINEES	428,740	0.33%
14	MR SIMON ROBERT EVANS	334,713	0.26%
15	MR GREGORY HUGH HALLIDAY	315,000	0.24%
16	MR ERIC GEORGE BAKER	239,000	0.18%
17	PILLION NOMINEES PTY LTD	135,350	0.10%
18	RICHARD EWAN MEWS	130,702	0.10%
19	DENWOL MERCHANT FINANCE	116,550	0.09%
20	MR ERIC GEORGE BAKER	111,000	0.08%
TOTAL		**122,249,522**	**93.54%**

UNITHOLDER INFORMATION (CONTINUED)

C. Substantial unitholders

Name of unitholder	Number of units	% of units issued
National Nominees Limited	52,306,421	40.02%
HSBC Custody Nominees Limited	30,743,474	23.52%
Citicorp Nominees Pty Limited	16,912,528	12.94%

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.